



**Govan Mbeki Municipality  
Annual Financial Statements  
for the year ended 30 June 2017**

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **General Information**

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<b>Legal form of entity</b>	Municipality
<b>Mayoral committee</b>	
Executive Mayor	Maboa-Boltman NF
Chief Whip	Mtshali PD
Speaker	Zuma NG
MPAC Chairperson	Gwiji CV
<b>Members of Mayoral Committee</b>	
	Makhaye SA Ngxonono YT Nkosi NE Ndaba BB
<b>Ward councillors</b>	
	Botha C Chamberlain M Denny T Fourie ME Lukhele I Mahlangu BD Mahlangu ED Mahlangu NP Mazibuko KD Mbokazi AV Mbonani LM Mnisi TR Mokoena BD Morajane TA Motloung ME Mtsweni MJ Ndoda NM NG Malaza Nkabinde ER Nkosi MJ Ntuli SR Sibanyoni SI Sithole LE Swart EP Thabethe IM van Rooyen EJ Vilakazi EA Zulu TS

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **General Information**

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<b>Proportional Representative Councillors</b>	Badenhorst HJ De Vries GR Hlolweni S Klaas N Mabizela TM Maseko TM Masuku PIP Mathebula SB Mkhaliplhi S Mkhwebane ZA Mofokeng TS Moloto BD Mosomane MI Mukhwanazi AO Ndwanyaza PN Nel-Buitendag AD Nhlapo MD Njinga SC Nkabinde JB Sebolela JD Shai KJ van Huyssteen NC von Widdern DC
<b>Grading of local authority</b>	B4
<b>Capacity of local authority</b>	High
<b>Dermacation code</b>	MP307
<b>Acting Chief Financial Officer (ACFO)</b>	Mahlangu MJ
<b>Accounting Officer</b>	Mhlanga BM
<b>Registered office</b>	Central Business Area Horwood Street Secunda 2302
<b>Business address</b>	Horwood Street Secunda 2302
<b>Postal address</b>	Private bag X1017 Secunda 2302
<b>Bankers</b>	ABSA Bank Limited Standard Bank
<b>Auditors</b>	Auditor General South Africa
<b>Attorneys</b>	Cronje de Waal & Skhosana Attorneys Inc. Els Louw and Rasool Attorneys Ramathe MJ Attorneys TMN Kgomo and Associates Paul Masha attorneys Tau Phalane Incorporated Attorneys Dikotope Attorneys Vusi Mthimunye Attorneys

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

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The reports and statements set out below comprise the annual financial statements presented to the council:

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### **Abbreviations**

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
FMG	Finance Management Grant

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Officer's Responsibilities and Approval**

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I, B.M Mhlanga, accounting officer of the Govan Mbeki Local Municipality, am responsible for the preparation of the annual financial statements, which are set out on pages 5 to 84 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Our opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements.

The municipality's cash flow forecast for the year beginning 1 July 2016 to 30 June 2017 and, in the light of this review and the current financial position and revenue enhancement activities the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Accounting officer certify that the salaries, allowance and benefits of councilors as disclosed in the note of these Annual Financial Statement are within the upper limit of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, Act No.20 of 1998.

The annual financial statements set out on pages 5 to 95, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017.

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**Mhlanga BM**  
**Acting Municipal Manager**

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2017.

### **1. Review of activities**

#### **Main business and operations**

Net deficit of the municipality was R 631 973 219 (2016: deficit R 216 116 523 restated).

### **2. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is aware of circumstances arising since the end of the financial year. Details of the events are disclosed in the notes of the annual financial statements.

### **4. Public Private Partnership**

The municipality did not have any public private partnerships as at end of reporting period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	15	39 386 773	14 990 227
Consumer debtors	14	181 645 587	167 550 935
Inventories	11	8 495 845	9 897 552
Short term receivables	10	628 101	5 648 686
Receivables from exchange transactions	12	1 492 388	12 315 525
Receivables from non-exchange transactions	13	34 162 385	33 965 240
		<b>265 811 079</b>	<b>244 368 165</b>
<b>Non-Current Assets</b>			
Investment property	4	953 825 289	1 205 782 828
Property, plant and equipment	5	1 986 151 949	2 144 758 108
Intangible assets	6	2 086 172	2 216 131
Heritage assets	7	5 428 407	5 428 407
Other financial assets	8	10 984 716	10 419 663
Long term receivables	10	3 081 542	35 599 620
		<b>2 961 558 075</b>	<b>3 404 204 757</b>
<b>Total Assets</b>		<b>3 227 369 154</b>	<b>3 648 572 922</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	18	1 585 291	1 409 806
Finance lease obligation	16	2 602 656	2 445 387
Payables from exchange transactions	21	899 515 862	597 996 456
Trade and other payable from non-exchange	22	3 464 552	4 569 139
VAT payable	23	24 642 883	63 687 759
Consumer deposits	24	23 124 103	22 651 297
Employee benefit obligation	9	1 115 000	1 204 000
Unspent conditional grants and receipts	17	17 114 153	19 407 803
Provisions for landfill site	19	2 610 672	1 765 668
Long service award liability	20	2 277 000	2 187 000
		<b>978 052 172</b>	<b>717 324 315</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	18	4 612 275	44 784 197
Finance lease obligation	16	480 804	3 083 460
Employee benefit obligation	9	48 361 864	50 711 864
Provisions for landfill site	19	81 333 759	88 267 578
Long service award liability	20	24 363 000	22 292 000
		<b>159 151 702</b>	<b>209 139 099</b>
<b>Total Liabilities</b>		<b>1 137 203 874</b>	<b>926 463 414</b>
<b>Net Assets</b>			
Accumulated surplus		<b>2 090 165 280</b>	<b>2 722 109 508</b>
		<b>2 090 165 280</b>	<b>2 722 109 508</b>



\* See Note 2 & 49

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance for the year ended 30 June 2017

Figures in Rand

Note(s)	2017	2016 Restated*
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### Revenue

#### Revenue from exchange transactions

Service charges	26	1 011 673 961	922 482 577
Rental of facilities and equipment		4 100 433	3 927 269
Interest received on outstanding debtors		44 537 487	55 285 404
Income from agency fees		23 730 891	22 502 398
Administration and management fees received		3 139 518	6 447 309
Fees earned		5 000 739	5 488 594
Incidental income		13 003 015	1 307 224
Other income	27	2 700 524	29 105 501
Interest received	28	1 538 588	1 518 368
Dividends received	28	26 668	52 409
<b>Total revenue from exchange transactions</b>		<b>1 109 451 824</b>	<b>1 048 117 053</b>

#### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	29	232 691 021	189 440 509
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##### Transfer revenue

Government grants & subsidies	31	284 799 984	326 634 431
Public contributions and donations	32	-	198
Fines		15 085 912	23 370 441
Insurance claims		542 371	733 781
<b>Total revenue from non-exchange transactions</b>		<b>533 119 288</b>	<b>540 179 360</b>

#### Total revenue

<b>25</b>	<b>1 642 571 112</b>	<b>1 588 296 413</b>
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### Expenditure

Employee related costs	33	(442 877 792)	(411 812 656)
Remuneration of councillors	34	(20 574 230)	(19 725 917)
Depreciation and amortisation	35	(159 294 894)	(161 182 069)
Impairment of assets	36	(8 644 861)	(1 693 493)
Finance costs	37	(42 449 372)	(40 426 315)
Debt Impairment	38	(227 097 345)	(140 889 950)
Collection costs		(2 975 046)	(8 779 147)
Repairs and maintenance		(67 588 203)	(76 133 387)
Bulk purchases	39	(817 286 667)	(719 102 325)
Contracted services	40	(85 624 233)	(77 700 495)
Grants and subsidies paid	30	(33 161 350)	(25 376 450)
General expenses	41	(141 099 758)	(104 780 697)
<b>Total expenditure</b>		<b>(2 048 673 751)</b>	<b>(1 787 602 901)</b>
<b>Operating deficit</b>		<b>(406 102 639)</b>	<b>(199 306 488)</b>
Profit (Loss) on disposal of assets		(319 495 177)	(19 410 300)
Actuarial gain / (loss)		4 677 000	2 623 000
Fair value adjustments	42	88 947 597	(22 735)
		<b>(225 870 580)</b>	<b>(16 810 035)</b>
<b>Deficit for the year</b>		<b>(631 973 219)</b>	<b>(216 116 523)</b>

\* See Note 2 & 49

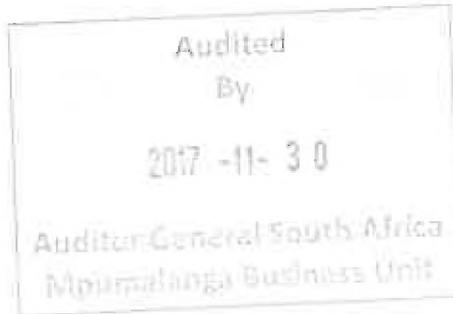
## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2 935 215 335	2 935 215 335
Adjustments		
Change in accounting policy - note 2	86 825	86 825
Correction of errors - note 49	2 923 871	2 923 871
<b>Balance at 01 July 2015 as restated*</b>	<b>2 938 226 031</b>	<b>2 938 226 031</b>
Changes in net assets		
Deficit for the year	(216 116 523)	(216 116 523)
Total changes	(216 116 523)	(216 116 523)
Opening balance as previously reported	2 752 803 059	2 752 803 059
Adjustments		
Change in accounting policy - note 5	(11 425 135)	(11 425 135)
Correction of errors - note 49	(19 239 425)	(19 239 425)
<b>Restated* Balance at 01 July 2016 as restated*</b>	<b>2 722 138 499</b>	<b>2 722 138 499</b>
Changes in net assets		
Deficit for the year	(631 973 219)	(631 973 219)
Total changes	(631 973 219)	(631 973 219)
<b>Balance at 30 June 2017</b>	<b>2 090 165 280</b>	<b>2 090 165 280</b>

Note(s)



\* See Note 2 & 49

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement for the year ended 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges & Property rates		1 085 882 361	925 192 052
Grants		282 185 349	300 276 768
Interest income		1 538 588	1 518 368
Dividends received		26 668	52 409
Other receipts		41 302 799	93 679 134
Fines		2 600 444	3 729 577
		<b>1 413 536 209</b>	<b>1 324 448 308</b>
<b>Payments</b>			
Employee costs		(460 541 049)	(429 063 949)
Suppliers		(834 545 138)	(803 121 813)
Finance costs		(33 166 173)	(30 283 897)
		<b>(1 328 252 360)</b>	<b>(1 262 469 659)</b>
<b>Net cash flows from operating activities</b>	<b>44</b>	<b>85 283 849</b>	<b>61 978 649</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(59 631 653)	(83 764 805)
Proceeds from sale of property, plant and equipment	5	1 663 083	15 638 325
Proceeds on sale of property, plant and equipment	4	2 457 450	-
Proceeds from sale of investment property	4		11 849 882
Purchase of intangible assets	6	(420 417)	(1 717 646)
Movement in investments		(739 170)	(581 629)
<b>Net cash flows from investing activities</b>		<b>(56 670 707)</b>	<b>(58 575 873)</b>
<b>Cash flows from financing activities</b>			
Movement in consumer deposits		472 806	1 021 196
Movement in loans		(1 452 338)	(4 781 644)
Finance lease payments		(3 237 064)	(3 042 057)
<b>Net cash flows from financing activities</b>		<b>(4 216 596)</b>	<b>(6 802 505)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>24 396 546</b>	<b>(3 399 729)</b>
Cash and cash equivalents at the beginning of the year		14 990 227	18 389 956
<b>Cash and cash equivalents at the end of the year</b>	<b>15</b>	<b>39 386 773</b>	<b>14 990 227</b>

\* See Note 2 & 49

**Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

**Statement of Comparison of Budget and Actual Amounts**

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
Revenue from exchange transactions						
Service charges	1 121 495 965		1 121 495 965	1 011 673 961	(109 822 004)	
Rental of facilities and equipment	4 854 027		4 854 027	4 100 433	(753 594)	
Interest on outstanding debtors	40 901 777		40 901 777	44 537 487	3 635 710	
Income from agency services	33 853 881		33 853 881	23 730 891	(10 122 990)	
Administration and management fees	10 951 337		10 951 337	3 139 518	(7 811 819)	
Fees earned	7 910 759		7 910 759	5 000 739	(2 910 020)	
Incidental income	1 059 455		1 059 455	13 003 015	11 943 560	
Other income	2 030 549		2 030 549	2 700 524	669 975	
Interest received - investment	3 198 351		3 198 351	1 538 588	(1 659 763)	
Dividends received	51 829		51 829	26 668	(25 161)	
<b>Total revenue from exchange transactions</b>	<b>1 226 307 930</b>		<b>1 226 307 930</b>	<b>1 109 451 824</b>	<b>(116 856 106)</b>	
Revenue from non-exchange transactions						
Property rates	247 933 234		247 933 234	232 691 021	(15 242 213)	
Government grants & subsidies						
Fines	294 784 000	(2 136 745)	292 648 255	284 799 984	(7 848 271)	
Insurance Claims	29 199 363	(1 000 000)	28 199 363	15 085 912	(13 113 451)	
	948 032		948 032	542 371	(405 661)	
<b>Total revenue from non-exchange transactions</b>	<b>572 864 629</b>	<b>(3 135 745)</b>	<b>569 728 884</b>	<b>533 119 288</b>	<b>(36 609 596)</b>	
<b>Total revenue</b>	<b>1 799 172 559</b>	<b>(3 135 745)</b>	<b>1 796 036 814</b>	<b>1 642 571 112</b>	<b>(163 465 702)</b>	
<b>Expenditure</b>						
Personnel	(448 355 748)	(8 383 396)	(456 739 144)	(442 877 792)	<b>13 861 352</b>	



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Remuneration of councillors	(21 038 267)	-	(21 038 267)	(20 574 230)	464 037	
Depreciation and amortisation	(162 164 992)	-	(162 164 992)	(159 294 884)	2 870 098	
Impairment loss	-	-	-	(8 644 861)	(8 644 861)	
Finance costs	(3 057 827)	(2 300 000)	(5 357 827)	(42 449 372)	(37 091 545)	
Debt impairment	(137 081 274)	-	(137 081 274)	(227 097 345)	(90 016 071)	
Collection costs	(7 892 136)	-	(7 892 136)	(2 975 046)	4 917 090	
Repairs and maintenance	(83 836 878)	(6 376 671)	(90 213 549)	(67 588 203)	22 625 346	
Bulk purchases	(638 908 098)	(7 639 000)	(646 547 098)	(817 286 667)	(170 739 569)	
Contracted services	(58 204 685)	(23 511 260)	(81 715 945)	(85 624 233)	(3 908 288)	
Grants and subsidies	(51 620 781)	23 794 685	(27 826 096)	(33 161 350)	(5 335 254)	
General expenses	(96 118 009)	(1 631 430)	(97 749 439)	(141 099 758)	(43 350 319)	
<b>Total expenditure</b>	<b>(1 708 278 695)</b>	<b>(26 047 072)</b>	<b>(1 734 325 767)</b>	<b>(2 048 673 751)</b>	<b>(314 347 984)</b>	
<b>Operating deficit</b>	<b>90 893 864</b>	<b>(29 182 817)</b>	<b>61 711 047</b>	<b>(406 102 839)</b>	<b>(467 813 686)</b>	
Loss on disposal of assets	10 000 000	-	10 000 000	(319 495 177)	(329 495 177)	
Actuarial losses	-	-	-	4 677 000	4 677 000	
Fair value adjustments	-	-	-	88 947 597	88 947 597	
<b>Deficit for the year</b>	<b>10 000 000</b>	<b>-</b>	<b>10 000 000</b>	<b>(225 870 580)</b>	<b>(235 870 580)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>100 893 864</b>	<b>(29 182 817)</b>	<b>71 711 047</b>	<b>(631 973 219)</b>	<b>(703 684 266)</b>	
	<b>100 893 864</b>	<b>(29 182 817)</b>	<b>71 711 047</b>	<b>(631 973 219)</b>	<b>(703 684 266)</b>	

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	13 331 620	(4 175 000)	9 156 620	8 495 845	(660 775)	
Receivables from exchange	5 676 696	21 856 000	27 532 696	1 492 388	(26 040 308)	
Receivables from non-exchange transactions	-	-	-	34 162 385	34 162 385	
Consumer debtors	175 237 611	(6 082 000)	169 155 611	181 645 587	12 489 976	
Short term receivables	25 923 652	-	25 923 652	628 101	(25 295 551)	
Cash and cash equivalents	118 511 000	(73 727 000)	44 784 000	39 386 773	(5 397 227)	
	<b>338 680 579</b>	<b>(62 128 000)</b>	<b>276 552 579</b>	<b>265 811 079</b>	<b>(10 741 500)</b>	
<b>Non-Current Assets</b>						
Investment property	1 425 166 000	(164 305 000)	1 260 861 000	953 825 289	(307 035 711)	
Property, plant and equipment	1 987 868 878	71 076 481	2 058 945 359	1 986 151 949	(72 793 410)	
Intangible assets	911 000	1 307 742	2 218 742	2 086 172	(132 570)	
Heritage assets	5 428 407	-	5 428 407	5 428 407	-	
Other financial assets	15 486 000	(4 418 859)	11 067 141	10 984 716	(82 425)	
Long term receivables	103 170 000	(51 045 000)	52 125 000	3 081 542	(49 043 458)	
	<b>3 538 030 285</b>	<b>(147 384 636)</b>	<b>3 390 645 649</b>	<b>2 961 558 075</b>	<b>(429 087 574)</b>	
<b>Total Assets</b>	<b>3 878 710 864</b>	<b>(209 512 636)</b>	<b>3 667 198 228</b>	<b>3 227 569 154</b>	<b>(439 529 074)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	1 409 806	-	1 409 806	1 585 291	175 485	
Finance lease obligation	2 445 387	-	2 446 387	2 802 656	157 269	
Payables from exchange transactions	182 793 522	(45 752 000)	147 041 522	899 515 861	752 474 038	
Payables from non-exchange	24 268 110	2 072 000	26 340 110	3 464 552	(22 875 556)	
VAT payable	79 104 434	9 000 000	88 104 434	24 642 883	(63 461 551)	



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Consumer deposits	22 974 530	-	22 974 530	23 124 103	149 573	
Employee benefit obligation	1 204 000	-	1 204 000	1 115 000	(89 000)	
Unspent conditional grants and receipts	18 973 245	-	18 973 245	17 114 153	(1 859 092)	
Provisions for landfill site	1 771 095	-	1 771 095	2 610 672	839 577	
Long service award liability	2 187 000	-	2 187 000	2 277 000	90 000	
	<b>347 131 429</b>	<b>(34 680 000)</b>	<b>312 451 429</b>	<b>978 052 171</b>	<b>665 600 742</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	5 070 356	(1 712 000)	3 358 356	4 612 275	1 253 919	
Finance lease obligation	2 602 656	492 740	3 095 396	480 804	(2 614 592)	
Employee benefit obligation	49 431 864	-	49 431 864	48 361 864	(1 070 000)	
Provisions for landfill site	88 052 441	-	88 052 441	81 333 759	(6 718 682)	
Long service award liability	21 648 000	-	21 648 000	24 363 000	2 715 000	
	<b>166 805 317</b>	<b>(1 219 260)</b>	<b>165 586 057</b>	<b>159 151 702</b>	<b>(6 434 355)</b>	
<b>Total Liabilities</b>	<b>513 936 746</b>	<b>(35 899 260)</b>	<b>478 037 486</b>	<b>1 137 203 873</b>	<b>659 166 387</b>	
<b>Net Assets</b>	<b>3 362 774 118</b>	<b>(173 613 376)</b>	<b>3 189 160 742</b>	<b>2 090 165 281</b>	<b>[1 098 995 461]</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
Accumulated surplus						
	<b>3 362 774 118</b>	<b>(173 613 376)</b>	<b>3 189 160 742</b>	<b>2 090 165 281</b>	<b>[1 098 995 461]</b>	



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Service charges	1 164 014 819	-	1 164 014 819	1 274 972 864	110 958 045	
Grants - operating	217 623 000	2 764 255	220 387 256	219 924 349	(462 906)	
Grants - capital	77 161 000	(14 900 000)	62 261 000	62 261 000	-	
Interest income	22 522 683	-	22 522 683	1 538 588	(20 984 095)	
Dividends received	51 829	-	51 829	26 668	(25 161)	
Other receipts	88 609 563	(45 709 430)	22 900 133	132 000 833	109 100 700	
	<b>1 549 982 894</b>	<b>(67 845 178)</b>	<b>1 482 137 719</b>	<b>1 690 724 302</b>	<b>195 586 583</b>	
<b>Payments</b>						
Suppliers and employee costs	(1 354 353 822)	(69 802 764)	(1 424 156 586)	(1 572 371 202)	(148 214 616)	
Finance costs	(3 057 828)	-	(3 057 828)	(33 166 173)	(30 108 346)	
	<b>(1 357 411 650)</b>	<b>(69 802 764)</b>	<b>(1 427 214 414)</b>	<b>(1 605 537 375)</b>	<b>(178 322 881)</b>	
<b>Net cash flows from operating activities</b>	<b>192 571 244</b>	<b>(127 647 938)</b>	<b>64 923 305</b>	<b>85 186 927</b>	<b>20 263 622</b>	





## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.e. s28 and s31 of the MFMA)	Final budget	Shifting of funds (i.e. s31 of the MFMA)	Virement (i.e. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2017</b>										
<b>Financial Performance</b>										
Property rates	247 933 234	1	247 933 235			247 933 235	232 691 021		(15 242 214)	94 %
Service charges	1 121 495 965		(1) 1 121 495 964			1 121 495 964	1 011 673 981		(109 822 003)	90 %
Investment revenue	3 250 180		-	3 250 180		3 250 180	1 565 256		(1 684 924)	48 %
Transfers recognised - operational	217 623 000	4 864 255	222 487 255			222 487 255	222 607 186		119 931	100 %
Other own revenue	141 709 180	(1 000 292)	140 708 888			140 708 888	205 771 016		65 062 128	146 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 732 011 559</b>	<b>3 863 963</b>	<b>1 736 876 622</b>			<b>1 736 876 622</b>	<b>1 674 308 440</b>		<b>(61 567 082)</b>	<b>96 %</b>
Employee costs	(448 355 748)	(15 440 219)	(463 795 967)			(463 795 967)	(442 877 792)		20 918 175	95 %
Remuneration of councilors	(21 038 267)	(1 676 021)	(22 714 288)			(22 714 288)	(20 574 230)		2 140 058	91 %
Debt impairment	(137 081 274)		(137 081 274)			(137 081 274)	(227 097 345)		(90 016 071)	166 %
Depreciation and asset impairment	(162 164 992)		(162 164 992)			(162 164 992)	(167 639 755)		(5 774 763)	104 %
Finance charges	(3 057 827)	(2 300 000)	(5 357 827)			(5 357 827)	(42 449 372)		(37 091 545)	792 %
Materials and bulk purchases	(638 908 098)	(7 639 000)	(646 547 098)			(646 547 098)	(817 286 667)		(170 739 569)	126 %
Transfers and grants	(51 620 781)	23 794 685	(27 826 096)			(27 826 096)	(33 161 350)		(5 335 254)	119 %
Other expenditure	(246 051 708)	(22 786 517)	(268 838 225)			(268 838 225)	(617 087 946)		(348 249 721)	230 %
<b>Total expenditure</b>	<b>(1 708 278 695)</b>	<b>(26 047 072)</b>	<b>(1 734 325 767)</b>			<b>(1 734 325 767)</b>	<b>(2 368 474 457)</b>		<b>(634 148 690)</b>	<b>137 %</b>
<b>Surplus/(Deficit)</b>	<b>23 732 864</b>	<b>(22 183 109)</b>	<b>1 549 755</b>			<b>1 549 755</b>	<b>(694 166 017)</b>		<b>(695 715 772)</b>	<b>(44 792)%</b>
										<b>(2 925)%</b>

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virlement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	77 161 000	(7 000 000)	70 161 000	-		70 161 000	62 192 798	(7 968 202)	89 %	81 %
Contributions recognised - capital and contributed assets	-	428	428	-		428	-	(428)	- %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	100 893 864	(29 182 681)	71 711 183	-		71 711 183	(631 973 219)	(703 684 402)	(881)%	(626)%
Surplus/(Deficit) for the year	100 893 864	(29 182 681)	71 711 183	-		71 711 183	(631 973 219)	(703 684 402)	(881)%	(626)%
<b>Capital expenditure and funds sources</b>										
Total capital expenditure	100 894 000	(13 498 897)	87 395 103	-		87 395 103	613 976 013	526 580 910	703 %	609 %
Sources of capital funds										
National Government	60 161 000	2 951 830	63 112 830	-		63 112 830	-	(63 112 830)	- %	- %
Provincial Government	17 000 000	(17 000 000)	-			10 000 000	-	(10 000 000)	DIV/0 %	- %
Public contributions and donations	-	10 000 000	10 000 000	-		-	-	-	- %	DIV/0 %
Internally generated funds	23 733 000	(9 450 727)	14 282 273	-		14 282 273	-	(14 282 273)	- %	- %
Total sources of capital funds	100 894 000	(13 498 897)	87 395 103	-		87 395 103	-	(87 395 103)	- %	- %

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (I.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (I.t.o. s31 of the MFMA)	Virement (I.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	192 571 245	(127 647 939)	64 923 306	-	64 923 306	85 283 849	-	20 360 543	131 %	44 %	
Net cash from (used) investing	(90 894 000)	23 499 000	(67 395 000)	-	(67 395 000)	(56 670 707)	-	10 724 293	84 %	62 %	
Net cash from (used) financing	(1 365 408)	-	(1 365 408)	-	(1 365 408)	(4 216 596)	-	(2 851 188)	309 %	309 %	
Net increase/(decrease) in cash and cash equivalents	100 311 837	(104 148 839)	(3 837 102)	-	(3 837 102)	24 396 646	-	28 233 648	(636)%	24 %	
Cash and cash equivalents at the beginning of the year	38 021 274	-	38 021 274	-	38 021 274	14 990 227	-	(23 031 047)	39 %	39 %	
Cash and cash equivalents at year end	138 333 111	(104 148 839)	34 184 172	-	34 184 172	39 386 773	-	(5 202 601)	115 %	28 %	

The accounting policies on pages 19 to 44 and the notes on pages 45 to 95 form an integral part of the annual financial statements.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Accounting Policies for the year ended 30 June 2017

#### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period. The details of any changes in accounting policies are explained in the relevant policy.

##### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

##### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

###### Trade and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables calculated on risk basis taking into account the number cut-offs, handed over status, indigent and payment ratio of each consumer debtor. The amount of loss is measured as the difference between the consumer debtor carrying amount and the estimated future cash flows.

###### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of of service potential expected to be realized from distribution or use.

###### Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

###### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 31 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

###### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.2 Significant judgements and sources of estimation uncertainty (continued)**

#### **Useful lives of property, plant and equipment**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

#### **Effective interest rate**

The municipality use the government bond rate to discount future cash flows.

#### **Allowance for debt impairment**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.3 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.3 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value of investment property reflecting market conditions at the valuation roll period of the municipality and annually updated with amendments of supplementary valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Landfill site	Straight line	24 years
Infrastructure	Straight line	10-30 years
Community	Straight line	15-30 years
Other property, plant and equipment	Straight line	3-15 years

The municipality shall assess at each reporting date whether there is any indication that the expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

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### 1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

### **1.6 Intangible assets (continued)**

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the precognition of an intangible assets is determined as the difference between the net disposal proceeds, if any, and carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

### **1.7 Heritage assets**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### **Initial measurement**

**Heritage assets** Heritage assets that qualifies for recognition as an asset shall be measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### **Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### **Impairment**

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### **Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the precognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised

### **1.8 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.8 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument or group of financial instruments, the municipality shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

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### 1.8 Financial Instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer receivables	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Other financial liabilities (Loan)	Financial liability measured at amortised cost
Value Added Tax	Financial liability measured at amortised cost
Financial lease	Financial liability measured at amortised cost

#### Initial recognition

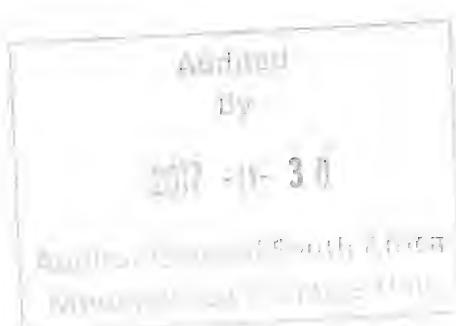
The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

#### Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

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### 1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

**Financial assets measured at cost:**

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### Derecognition

#### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.9 Leases (continued)**

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

### **1.10 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**Accounting Policies for the year ended 30 June 2017****1.10 Inventories (continued)****Water inventory**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

**Other arrangements**

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

**1.11 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

**Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

**Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Policies for the year ended 30 June 2017**

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#### **1.11 Impairment of cash-generating assets (continued)**

##### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

##### **Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.11 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### **1.12 Impairment of non-cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.12 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.13 Employee benefits (continued)**

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

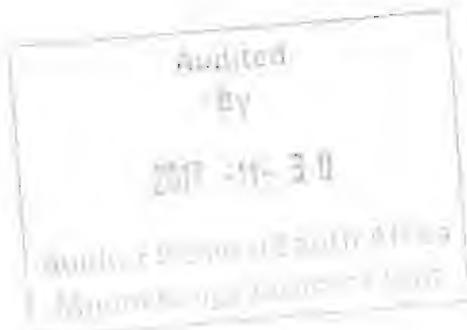
The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



## **Govan Mbeki Municipality**

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## **Accounting Policies for the year ended 30 June 2017**

### **1.13 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

### **1.13 Employee benefits (continued)**

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### **1.14 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.14 Provisions and contingencies (continued)**

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability

Contingent assets and contingent liabilities are not recognised however disclosed in the notes of the financial statements. Contingencies are disclosed in note 46.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.16 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Rendering of services by the municipality includes, but not limited to income from agency fees, rentals, incidental income and other income.

#### Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.17 Revenue from non-exchange transactions (continued)**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### **Recognition**

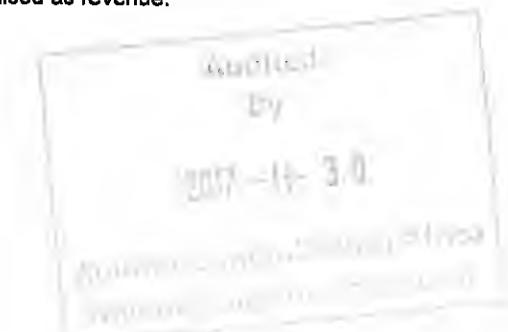
An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

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### 1.17 Revenue from non-exchange transactions (continued)

#### Rates including collection charges and penalties

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### Grants

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Unconditional grants and receipts are recognised upon receipt.

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies for the year ended 30 June 2017

### 1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10, 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure incurred that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.22 Irregular expenditure (continued)**

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.23 Segment information**

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

#### **Measurement**

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

### **1.24 Budget information**

The approved budget is prepared on a accrual basis and presented by programmes linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### **1.25 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.26 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies for the year ended 30 June 2017**

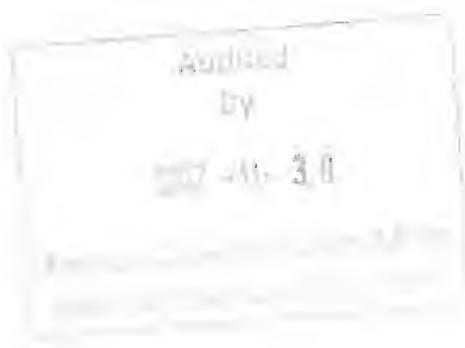
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### **1.26 Events after reporting date (continued)**

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

2017

2016

### 2. Change in accounting policy

The municipality changed its accounting policy with respect to the disposal of vacant land (investment property). The municipality now applies the policy to ensure that the purchaser needs to sign an agreement with the municipality and pay the agreed selling price in full before risks and rewards are transferred and the property transferred out of the municipality's records. Prior to this change in policy, the municipality transferred the property to the third party once the agreement is signed and the payment was not considered.

The impact of this voluntary change in accounting policy on the financial statements is primarily to reduce trade receivables from exchange transactions which were created in the past for all payments received in advance. This change did not result in a material impact on the current year or any years included within these financial statements. The change in accounting policy has been applied retrospectively by restating the comparative figures accordingly.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2016 is as follows:

#### Statement of financial position

<b>Assets</b>	
Investment Property	857 000
Property, plant and equipment	805 512
	<hr/>
	1 662 512
 <b>Current Assets</b>	
Trade and other receivables	(11 874 398)
 <b>Current liabilities</b>	
Trade Payables	(3 045 520)
VAT Payables	1 832 271
	<hr/>
	(1 213 249)
 <b>Accumulated surplus</b>	
Opening accumulated surplus	(86 825)

#### Statement of Financial Performance

<b>Revenue</b>	
Profit or Loss on sale of asset	11 511 960
	<hr/>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

### 3. New standards and Interpretations

#### 3.1 Standards and Interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

##### GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

##### GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

### 3. New standards and interpretations (continued)

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

#### 3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
* Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Impact is currently being assessed
* GRAP 20: Related parties	01 April 2017	Not expected to impact results but may result in additional disclosure
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	Impact is currently being assessed
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Impact is currently being assessed
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	Impact is currently being assessed
• GRAP 18: Segment Reporting	01 April 2017	Not expected to impact results but may result in additional disclosure

#### GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

#### GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Notes to the Annual Financial Statements for the year ended 30 June 2017**

#### **3. New standards and interpretations (continued)**

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

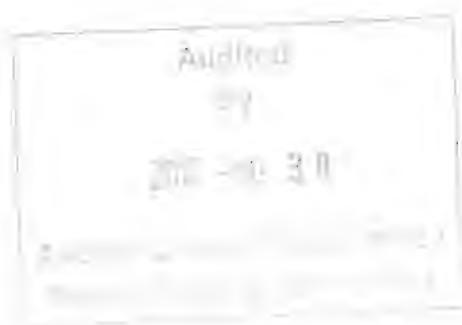
#### **GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.



## Govan Mbeki Municipality

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### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 4. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	953 825 289	-	953 825 289	1 205 782 828	-	1 205 782 828

#### Reconciliation of Investment property - 2017

	Opening balance	Additions	Fair value adjustments	Disposals	Total
Investment property	1 205 782 828	30 800 000	88 964 461	(371 722 000)	953 825 289

#### Reconciliation of Investment property - 2016

	Opening balance	Disposals	Total
Investment property	1 237 578 289	(31 795 461)	1 205 782 828

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 1 July 2016. Revaluations were performed by an independent valuer from Lutendo Property Group, the valuer is qualified and registered as a Professional Valuer with the Institute of the South African Council for Property Valuers Profession. Lutendo Property Group valuation services is not connected to the municipality and have experience in location and category of the investment property being valued.

Investment property was fair valued and changes on the market value increased the fair value by R 88 964 461. The valuation assumptions are based on current market conditions.



## Govan Mbeki Municipality

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#### 5. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	428 949 830	-	428 949 830	470 966 085	-	470 966 085
Buildings	920 043 762	(632 771 531)	287 272 231	876 433 125	(601 629 345)	274 803 780
Infrastructure	4 500 561 026	(3 422 230 486)	1 078 330 560	4 476 969 747	(3 300 379 196)	1 176 590 551
Assets under construction	122 164 553	-	122 164 553	133 343 690	-	133 343 690
Landfill site	178 582 234	(141 936 848)	36 625 386	186 164 465	(137 524 414)	48 640 051
Leased movable assets	5 982 631	(3 804 465)	2 178 166	6 818 105	(2 470 738)	4 347 368
Other property, plant and equipment	131 639 312	(102 054 075)	29 584 237	138 511 260	(103 852 225)	34 659 035
Library books	4 689 193	(3 842 207)	1 046 986	4 877 044	(3 469 504)	1 407 540
<b>Total</b>	<b>6 292 591 541</b>	<b>(4 306 439 592)</b>	<b>1 986 151 949</b>	<b>6 294 083 531</b>	<b>(4 149 325 423)</b>	<b>2 144 758 108</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Transfer from investment properties	Impairment loss	Total
Land	470 966 095	-	(42 016 265)	-	-	-	-	428 949 830
Buildings	274 803 780	-	-	43 610 635	(26 109 402)	-	(5 032 782)	287 272 231
Infrastructure	1 176 590 551	183 646	-	23 407 633	-	(118 897 709)	(2 853 561)	1 078 330 560
Assets under construction	133 343 690	55 639 132	-	(87 018 268)	-	-	-	122 164 553
Landfill site	48 640 051	936 988	(8 080 852)	-	(4 870 812)	-	-	36 625 386
Leased movable assets	4 347 368	-	(65 327)	-	(2 103 873)	-	-	2 178 166
Other property, plant and equipment	34 659 035	3 827 419	(1 807 013)	-	-	(6 436 687)	(658 517)	29 584 237
Library Books	1 407 540	-	(19 578)	-	(340 976)	-	-	1 046 986
<b>Total</b>	<b>2 144 758 108</b>	<b>60 787 196</b>	<b>(51 989 035)</b>	<b>(1)</b>	<b>(33 425 063)</b>	<b>(125 334 396)</b>	<b>(8 644 860)</b>	<b>1 986 151 949</b>

#### Reconciliation of property, plant and equipment - 2016

## Govan Mbeki Municipality

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#### 5. Property, plant and equipment (continued)

	Opening balance	Additions	Donations	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	473 591 233	-	-	(2 625 138)	-	(23 280 581)	-	470 966 095
Buildings	291 016 882	7 067 469	-	-	-	-	-	274 803 780
Infrastructure	1 257 220 185	6 651 377	3 735 731	(388 492)	27 790 323	(118 428 584)	-	1 176 590 551
Assets Under construction	86 983 796	74 150 217	-	-	(27 790 323)	-	-	133 343 690
Landfill site	53 246 409	2 796 044	-	(3 705 909)	-	(3 696 493)	-	48 640 051
Leased assets	545 675	5 982 630	-	-	-	(2 180 939)	-	4 347 366
Other property, plant and equipment	43 308 212	2 955 980	2 667 627	(31 791)	-	(12 549 124)	(1 691 879)	34 659 035
Library Books	1 756 152	-	226 936	(10 460)	-	(565 088)	-	1 407 540
	2 207 668 565	99 613 727	6 830 294	(6 781 780)	-	(180 700 809)	(1 691 879)	2 144 758 108

#### Pledged as security

Carrying value of assets pledged as security:

Office equipment 2 178 166 4 347 366

Included other property plant and equipment is office equipment subject to finance lease. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note on the finance lease obligations.

#### Expenditure incurred to repair and maintain property, plant and equipment

In the 2016/2017 financial period, the municipality incurred the following expenditure to repair and maintain property, plant and equipment included in Statement of Financial Performance

Infrastructure Water assets	5 881 815	-
Infrastructure Electricity assets	25 185 720	-
Infrastructure Roads and Storm water	12 423 047	-
Infrastructure Sanitation	8 975 262	-
Operating Landfill Site	11 912 112	-
Facilities	1 916 612	-
Other Assets	1 293 635	-
	67 588 203	-

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

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#### 6. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 283 859	(1 197 687)	2 086 172	2 903 177	(687 046)	2 216 131

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	2 216 131	419 787	(14 312)	(535 434)	2 086 172

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	983 943	1 717 646	(4 562)	(480 896)	2 216 131

#### Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### 7. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	5 428 407	-	5 428 407	5 428 407	-	5 428 407

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	5 428 407	5 428 407

#### Reconciliation of heritage assets 2016

	Opening balance	Disposals	Total
Art Collections, antiquities and exhibits	5 428 711	(304)	5 428 407

#### Pledged as security

No heritage assets have been pledged as security for any liabilities of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## Govan Mbeki Municipality

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#### 8. Other financial assets

##### Designated at fair value

Old mutual shares  
Sanlam shares

1 056 431	1 241 435
158 890	148 002
<b>1 215 321</b>	<b>1 389 437</b>

##### At amortised cost

ABSA Fixed deposit

The ABSA balance is held as security for the DBSA loan with a balance of R 6 197 565 as at year end (2016: R 7 649 904).

9 769 395	9 030 226
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**Total other financial assets**

<b>10 984 716</b>	<b>10 419 663</b>
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##### Non-current assets

At fair value  
At amortised cost

1 215 321	1 389 437
9 769 395	9 030 226
<b>10 984 716</b>	<b>10 419 663</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

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### 9. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member who is on the current conditions of service is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit funding method.

At the valuation date individuals entitled to a post - retirement medical aid subsidy were:

In - service (employee) members.

In - service (employee) non - members.

Continuation (retiree and widow) members.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(48 361 864)	(50 599 864)
Present value of the defined benefit obligation-partly or wholly funded	(1 115 000)	(1 316 000)
	<b>(49 476 864)</b>	<b>(51 915 864)</b>

#### Non-current liabilities

Current liabilities	(48 361 864)	(50 711 864)
	(1 115 000)	(1 204 000)
	<b>(49 476 864)</b>	<b>(51 915 864)</b>

#### Valuation of assets

At the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets had been set aside to meet this liability.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(51 915 864)	(50 599 864)
Benefits paid	3 781 000	3 252 000
Net expense recognised in the statement of financial performance	(1 342 000)	(4 568 000)
	<b>(49 476 864)</b>	<b>(51 915 864)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(1 204 000)	(1 168 000)
Interest cost	(4 507 000)	(4 500 000)
Actuarial (gains) losses	4 389 000	1 100 000
	<b>(1 342 000)</b>	<b>(4 568 000)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,47 %	9,01 %
Consumer Price Inflation	6,85 %	7,20 %
Health care cost inflation	7,85 %	8,20 %
Net discount rate	1,50 %	0,75 %

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### 9. Employee benefit obligations (continued)

The determination of the investment returns are as per market yields at balance sheet date on government bonds. Two most important financial variables used in our valuation are the discount and medical aid inflation rates, the zero coupon yield curve from Johannesburg Stock Exchange were used to determine the discount rates and CPI assumptions.

The discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2017 is 9.47% per annum

The yield on inflation linked bonds of a similar term was about 2.45% per annum, implying an underlying expectation of inflation of 6.85% per annum.

A healthcare cost inflation rate of 7.85% was assumed. This is 1.0% in excess of the expected inflation over the expected term of the liability. It is the relative levels of the discount rate and healthcare inflation to one another that are important rather than the nominal values. It has thus assumed a net discount factor of 1.50% per annum.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements. It was assumed that post employment health care subsidy would be at 100% of active employees or their surviving dependents.

#### Actuarial gains

#### Changes in economic variables

The changes in net discount rate from last years valuation to the current year reduced the liability by R 4 741 000. The health benefit inflation was lower than assumed in the prior valuation and the effect was a decrease in the liability by R 18 000.

The net effect of miscellaneous items resulted in an increase to the liability by R 2 631 000.

Changes in membership – There were a few changes in the membership over the past financial years changes resulted in a decrease in the liability of around R 2 241 000.

#### Sensitivity analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables i.e.

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical Aid inflation

#### Withdrawal rate

The 20% decrease and 20% increase in the withdrawals assumption will result in will result in 0.86% increase and 0.80% decrease in the accrued liability respectively.

#### Health care cost inflation

The valuation basis assume that the health care cost inflation rate will increase by 1. Therefore 1% increase in health care inflation assumption will result in 11.53% increase in the accrued liability and 1% decrease in health care inflation assumption will result in 9.75% decrease in the accrued liability.

Withdrawal rate	-20% Withdrawal rate	Valuation assumptions	+20% Withdrawal rate
Total Accrued Liability	49 079 000	49 476 000	49 909 000
Current Service Cost	1 074 000	1 115 000	1 161 000
Interest Cost	4 471 000	4 508 000	4 549 000
	<b>54 624 000</b>	<b>55 099 000</b>	<b>55 619 000</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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<b>9. Employee benefit obligations (continued)</b>			
Health care cost inflation			
	-1% Health care cost inflation	Valuation assumptions	+1% Health care cost inflation
Total Accrued Liability	44 643 000	49 476 000	55 179 000
Current Service Cost	928 000	1 115 000	1 350 000
Interest Cost	4 052 000	4 508 000	5 048 000
	<b>49 623 000</b>	<b>55 099 000</b>	<b>61 577 000</b>
<b>10. Long term receivables</b>			
Credit quality of long term receivables			
The credit quality of long term receivables from exchange transactions that are either past due or impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed. Long term receivables include debtors with signed debt arrangement and/or handed over to lawyers			
The municipality enforces its approved credit policy to ensure the recovery of long term receivables. The balance of long term receivables are as follows.			
<b>Summary of long term debtors</b>			
Gross long term receivables	88 130 529	130 005 397	
Less: Allowance for impairment	(84 420 886)	(88 756 917)	
	<b>3 709 643</b>	<b>41 248 480</b>	
Short term receivables	<b>628 101</b>	<b>5 648 686</b>	
Long term receivables	<b>3 081 542</b>	<b>35 599 620</b>	
<b>11. Inventories</b>			
Consumable stores			
Water	7 840 968	9 279 260	
	654 877	618 292	
	<b>8 495 845</b>	<b>9 897 552</b>	
<b>12. Receivables from exchange transactions</b>			
Other receivables	<b>1 492 388</b>	<b>12 315 525</b>	
<b>13. Receivables from non-exchange transactions</b>			
Fines	2 170 522	7 682 743	
Government grants and subsidies	10 250 625	11 070 083	
Property rates	21 741 238	15 212 414	
	<b>34 162 385</b>	<b>33 965 240</b>	

# Govan Mbeki Municipality

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### 13. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions pledged as security

	2017	2016
<b>Summary of property rates</b>		
Gross balance	77 843 433	66 470 145
Less: Allowance for impaired	(56 102 194)	(50 165 954)
	<b>21 741 239</b>	<b>16 304 191</b>
<b>Summary of rates per ageing</b>		
Current (0-30 days)	5 128 024	2 361 418
31 -60 days	2 776 197	1 715 665
61-90 days	2 637 938	1 541 322
91-120 days	2 205 736	2 086 787
>120 days	65 095 538	58 586 495
Allowance for impairment	(56 102 194)	(50 165 954)
	<b>21 741 239</b>	<b>16 125 733</b>
<b>Consumers</b>		
Current (0-30 days)	1 207 085	600 174
31 -60 days	1 131 192	629 329
61-90 days	946 599	598 514
91-120 days	822 227	898 817
>120 days	23 003 459	24 189 290
Allowance for impairment	(19 087 132)	(20 715 722)
	<b>8 023 430</b>	<b>6 200 402</b>
<b>Industrial/ Commercial</b>		
Current (0-30 days)	3 573 420	1 693 447
31-60 days	1 479 747	1 014 494
61-90 days	1 544 569	880 161
91-120 days	1 236 732	1 116 596
>120 days	36 297 561	30 663 877
Allowance for impairment	(31 574 285)	(25 940 628)
	<b>12 557 744</b>	<b>9 427 947</b>
<b>National and Provincial government</b>		
Current (0-31days)	173 688	28 470
31-60 days	63 293	29 122
61-90 days	63 130	27 725
91-120 days	61 991	36 810
>120 days	3 492 236	2 020 233
Allowance for impairment	(3 318 898)	(1 831 831)
	<b>535 440</b>	<b>310 529</b>
<b>Other</b>		
Current (0-31days)	173 832	40 638
31-60 days	101 964	42 720
61-90 days	83 640	34 932
91-120 days	84 786	34 565
>120 days	2 302 282	1 713 094
Allowance for impairment	(2 121 880)	(1 677 766)
	<b>624 624</b>	<b>188 183</b>

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#### 13. Receivables from non-exchange transactions (continued)

##### Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security.

##### Reconciliation of provision for impairment of receivables from property rates

Opening balance	(50 165 954)	(60 724 355)
Provision for impairment	(5 936 241)	10 558 401
	<b>(66 102 195)</b>	<b>(60 165 954)</b>

##### Fines

##### Debt was guaranteed, but no guarantee fee was paid

Financial guarantee contract details are as follow:

##### Summary of fines

Opening balance	33 912 888	69 200 344
Additions	12 485 468	19 640 864
Gross fines written off	-	(54 928 320)
Provision for impairment	(44 227 834)	(26 230 145)
	<b>2 170 522</b>	<b>7 682 743</b>

##### Reconciliation of provision for impairment of receivables from fines

Opening balance	(26 230 145)	(63 922 387)
Provision for impairment	(17 997 689)	37 692 242
	<b>(44 227 834)</b>	<b>(26 230 145)</b>

##### Credit quality of receivables from non-exchange transactions

The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

#### 14. Consumer debtors

##### Gross balances

Electricity	125 112 530	113 198 354
Water	293 238 380	337 388 837
Sewerage	118 961 085	152 555 126
Refuse	107 152 739	138 350 546
Other	217 051 152	237 826 710
	<b>861 515 886</b>	<b>979 319 573</b>

##### Less: Allowance for Impairment

Electricity	(53 510 617)	(77 938 775)
Water	(238 954 339)	(268 209 692)
Sewerage	(103 974 664)	(136 986 041)
Refuse	(70 629 092)	(122 529 462)
Other	(212 801 587)	(206 104 668)
	<b>(679 870 299)</b>	<b>(811 768 638)</b>

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#### 14. Consumer debtors (continued)

	2017	2016
<b>Net balance</b>		
Electricity	71 601 913	35 259 579
Water	54 284 041	69 179 145
Sewerage	14 986 421	15 569 085
Refuse	36 523 647	15 821 084
Other	4 249 565	31 722 042
	<b>181 645 587</b>	<b>167 550 935</b>
 <b>Electricity</b>		
Current (0 -30 days)	30 767 763	32 806 844
31 - 60 days	5 792 196	4 353 205
61 - 90 days	4 400 138	4 491 405
91 - 120 days	3 307 747	4 066 331
121 - 365 days	80 842 736	67 482 303
> 365 days	(53 508 667)	(77 940 509)
	<b>71 601 913</b>	<b>35 259 579</b>
 <b>Water</b>		
Current (0 -30 days)	28 365 935	39 591 542
31 - 60 days	10 370 234	9 993 729
61 - 90 days	12 285 318	9 842 867
91 - 120 days	9 368 094	9 485 185
121 - 365 days	232 848 800	268 475 514
> 365 days	(238 954 340)	(268 209 692)
	<b>54 284 041</b>	<b>69 179 145</b>
 <b>Sewerage</b>		
Current (0 -30 days)	4 031 943	5 060 916
31 - 60 days	4 894 532	4 012 842
61 - 90 days	3 420 292	3 609 539
91 - 120 days	3 987 414	3 769 250
121 - 365 days	102 626 904	136 102 579
> 365 days	(103 974 664)	(136 986 041)
	<b>14 986 421</b>	<b>15 569 085</b>
 <b>Refuse</b>		
Current (0 -30 days)	3 328 147	3 601 247
31 - 60 days	3 471 411	3 610 422
61 - 90 days	3 264 151	3 350 294
91 - 120 days	3 067 552	3 206 876
121 - 365 days	94 021 578	124 581 707
> 365 days	(70 629 192)	(122 529 462)
	<b>36 523 647</b>	<b>15 821 084</b>
 <b>Other</b>		
Current (0 -30 days)	768 995	562 252
31 - 60 days	258 268	613 318
61 - 90 days	361 704	496 740
91 - 120 days	420 767	412 645
121 - 365 days	215 241 418	235 740 021
> 365 days	(212 801 587)	(206 102 934)
	<b>4 249 565</b>	<b>31 722 042</b>

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#### 14. Consumer debtors (continued)

##### Summary of debtors by customer classification

###### Consumers

Current (0 -30 days)	32 074 303	57 932 321
31 - 60 days	17 064 415	20 022 109
61 - 90 days	17 603 396	19 144 148
91 - 120 days	15 180 321	18 734 034
121 - 365 days	581 232 773	766 046 478
	663 155 208	881 879 090
Less: Allowance for impairment	(566 986 322)	(753 239 929)
	<b>96 168 886</b>	<b>128 639 161</b>

###### Industrial/ commercial

Current (0 -30 days)	18 458 802	20 568 433
31 - 60 days	5 880 718	1 721 555
61 - 90 days	4 485 365	1 985 742
91 - 120 days	3 693 176	1 572 632
121 - 365 days	93 921 409	36 888 442
	126 439 470	62 736 804
Less: Allowance for impairment	(67 479 340)	(29 914 846)
	<b>58 960 130</b>	<b>32 821 958</b>

###### National and provincial government

Current (0 -30 days)	16 103 792	2 624 313
31 - 60 days	1 545 755	434 197
61 - 90 days	1 288 731	424 733
91 - 120 days	1 006 800	326 030
121 - 365 days	25 516 515	6 644 814
	45 461 593	10 454 087
Less: Allowance for impairment	(22 166 792)	(6 046 098)
	<b>23 294 801</b>	<b>4 407 989</b>

###### Other

Current (0 -30 days)	625 924	497 734
31 - 60 days	295 932	405 656
61 - 90 days	354 150	236 222
91 - 120 days	271 321	307 658
121 - 365 days	24 912 374	22 837 032
	26 459 701	24 284 302
Less: Allowance for impairment	(23 237 945)	(22 569 505)
	<b>3 221 756</b>	<b>1 714 797</b>

###### Reconciliation of allowance for impairment

Balance at beginning of the year	(811 768 638)	(706 606 715)
Contributions to allowance	(206 384 834)	(105 161 923)
Irrecoverable debts write-off	338 283 173	-
	<b>(679 870 299)</b>	<b>(811 768 638)</b>

###### Consumer debtors pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

## Govan Mbeki Municipality

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#### 14. Consumer debtors (continued)

##### Credit quality of consumer debtors

The credit quality of consumer receivables from exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Consumer receivables are billed monthly. No interest is charged on consumer receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding capital amount exclusive of interest. Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality enforces its approved credit control policy to ensure the recovery of consumer receivables. Deposits are required to be paid for all water accounts opened.

None of the financial assets that are fully performing have been renegotiated in the last year

#### 15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand		21 810	21 350
Bank balances		35 535 212	11 968 318
Short-term deposits		3 829 751	3 000 559
		<b>39 386 773</b>	<b>14 990 227</b>

##### Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for post office mailing account	300 000	300 000
--	---------	---------

##### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA Bank Primary Account	-	-	1 727 433	-	-	10 373 787
Standard Bank Account	33 885 001	11 046 718	9 666 366	35 535 212	11 968 318	1 286 290
ABSA 32 days	-	-	348 454	-	-	348 454
ABSA MIG Funds Account	-	-	58 260	-	-	58 260
ABSA Cheque Account	-	-	304 986	-	-	304 986
ABSA Call Bank	-	-	910 349	-	-	901 349
Standard Bank Account -MIG	52 953	46 522	3 997 550	52 953	46 522	3 997 550
Standard Bank Account -Emba	341 209	320 110	460 490	341 209	320 110	460 490
Standard Bank - Account-Traffic	2 122 654	1 402 790	8 016	2 122 654	1 402 790	8 016
Standard Bank - Call Account	1 312 922	1 231 125	-	1 312 922	1 231 125	-
<b>Total</b>	<b>37 714 739</b>	<b>14 047 265</b>	<b>17 481 904</b>	<b>39 364 950</b>	<b>14 968 865</b>	<b>17 739 182</b>

# Govan Mbeki Municipality

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### 16. Finance lease obligation

#### Minimum lease payments due

- within one year
- in second to fifth year inclusive

less: future finance charges

2 953 039	3 237 064
491 853	3 444 893
<hr/>	<hr/>
3 444 892	6 681 957
(361 432)	(1 153 110)
<hr/>	<hr/>
<b>3 083 460</b>	<b>5 528 847</b>

#### Present value of minimum lease payments due

- within one year
- in second to fifth year inclusive

2 602 656	2 445 387
480 804	3 083 460
<hr/>	<hr/>
<b>3 083 460</b>	<b>5 528 847</b>

Non-current liabilities

Current liabilities

480 804	3 083 460
2 602 656	2 445 387
<hr/>	<hr/>
<b>3 083 460</b>	<b>5 528 847</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 10% (2016: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	916 535	2 951 830
Sports & Development Grant	453 685	453 685
Energy Efficiency & Demand Side Management	-	10 000
Integrated National Electrification Programme Grant	8 497	-
Municipal system improvement Grant	-	35 263
Pre-capacity grant	286 843	405 992
SASOL Point duty officers	313 901	-
SASOL	15 116 475	15 116 475
Financial Management Grant	18 217	434 558
<hr/>	<hr/>	<hr/>
<b>17 114 153</b>	<b>19 407 803</b>	

The grant liability indicated the nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited. Fulfilled conditions and other contingencies attaching to government assistance that has been recognised as revenue and disclosed in the grant income note of the annual financial statements.

### 18. Other financial liabilities

#### At amortised cost

Development Bank of South Africa	6 197 566	7 649 904
ESKOM Debt	-	38 544 099
<hr/>	<hr/>	<hr/>
	<b>6 197 566</b>	<b>46 194 003</b>

## Govan Mbeki Municipality

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#### 18. Other financial liabilities (continued)

<b>Total other financial liabilities</b>	<b>6 197 566</b>	<b>46 194 003</b>
<b>Non-current liabilities</b>		
At amortised cost	4 612 275	44 784 197
<b>Current liabilities</b>		
At amortised cost	1 585 291	1 409 806

#### 19. Provisions for landfill site

##### Reconciliation of provisions for landfill site - 2017

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Total
Landfill site	90 033 246	(11 594 757)	3 729 420	1 776 522	83 944 431

##### Reconciliation of provisions for landfill site - 2016

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Landfill site	90 475 510	(13 094 518)	2 423 069	5 024 054	5 205 131	90 033 246
Non-current liabilities					81 333 759	88 267 578
Current liabilities					2 610 672	1 765 668
					83 944 431	90 033 246

##### Landfill site rehabilitation provision

The municipality will incur licensing and rehabilitation cost of R 83 944 430 (2016: R90 033 245) to restore landfill sites at the end of their use. As at 30 June 2017, this liability will be incurred over 0 to 35 years. Provision has been made for the net present value of the expenditures expected to be required to settle the obligation using the average cost of borrowings.

In the current year the waste management team accurately accounted for waste dispositions in the landfill sites. The increased accuracy in volumes of waste dumped at these sites resulted in more accurate site life calculations. The effect of the changes resulted in decrease in provisions by R 11 594 757.

The net discount rate increased from 1.97% to 3.11% and thus decreased the liability as at 30 June 2017.

The priced quotations used to quantify the rehabilitation costs and closure costs increased in the financial year. The net effect of the increase was R 1 817 288.

# Govan Mbeki Municipality

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### 20. Long service award liability

The municipality operates a defined benefit plan for all its employees. The long service award liability is not a funded arrangement, i.e. no separate assets have been set aside to meet its liability.

Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive) to employees. Furthermore, a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of a long service based on historical staff turnover. No other long service benefits are provided to employees.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

At year end, 1,326 (2016: 1,348) employees were eligible for long service awards.

#### Valuation of liabilities

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

#### Valuation of assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability

The amounts recognised in the statement of financial position are as follows:

#### Carrying amount

	2017	2016
Opening balance	(24 479 000)	(23 954 000)
Increase in long service award liability	(2 161 000)	(525 000)
	<b>(26 640 000)</b>	<b>(24 479 000)</b>
Non current liabilities	(24 363 000)	(22 292 000)
Current liabilities	(2 277 000)	(2 187 000)
	<b>(26 640 000)</b>	<b>(24 479 000)</b>

#### Changes in the present value of the long service award liability are as follows:

	2017	2016
Opening balance	(24 479 000)	(23 954 000)
Benefits paid	1 926 000	2 444 000
Net expense recognised in the statement of financial performance	(4 087 000)	(2 969 000)
	<b>(26 640 000)</b>	<b>(24 479 000)</b>

#### Net expense recognised in the statement of financial performance

	2017	2016
Current service cost	(2 187 000)	(2 306 000)
Interest cost	(2 208 000)	(2 186 000)
Actuarial gains/ (losses)	308 000	1 523 000
	<b>(4 087 000)</b>	<b>(2 969 000)</b>

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

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### 20. Long service award liability (continued)

The discount rate determined by using the Bond Exchange (JSE) Zero Coupon Yield Curve as at 30 June 2017 is 8.45% per annum. The assumed discount rate used at the previous valuation, 30 June 2016, was 9.39% per annum..

At 30 June 2017 the yield on inflation-linked bonds of a similar term was about 2.47% per annum. This implies an underlying expectation of inflation of 5.84% per annum  $([1 + 8.45\%] / [1 + 2.47\%] - 1)$ .

It was assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 6.84% per annum. However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 1.51% per annum  $([1 + 8.45\%] / [1 + 6.84\%] - 1)$

#### Actuarial gain can be attributed to the following factors

Changes in economic variables increased the liability.

Increase in employees entitled to other long service award benefits.

#### Financial variable

Discount Rate	8.45%	9.39%
CPI (Consumer price inflation)	5.84%	7.52%
Normal salary increase rate	6.84%	8.52%
Net effective discount rate	1.51%	1%
Expected retirement age - female	63	63
Expected retirement age - male	63	63

#### Sensitivity analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership. In order to illustrate the sensitivity of our results to changes in certain key variables, the liabilities were recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation.

#### Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%.

#### Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption.

The effect of the above is as follows:

Withdrawals	-20% Withdrawal rate	Valuation Assumptions	+20% Withdrawal rate
Total Accrued Liability	25 324 000	26 640 000	28 110 000
Current Service Cost	2 125 000	2 277 000	2 452 000
Interest Cost	2 018 000	2 129 000	2 253 000
	29 467 000	31 046 000	32 815 000

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### 20. Long service award liability (continued)

#### Normal salary inflation

Total Accrued Liability

Current Service Cost

Interest Cost

	-1% Normal salary inflation	Valuation Assumptions	+1% Normal salary inflation
25 033 000	26 640 000	28 414 000	
2 119 000	2 277 000	2 453 000	
1 994 000	2 129 000	2 278 000	
<b>29 146 000</b>	<b>31 046 000</b>	<b>33 145 000</b>	

### 21. Payables from exchange transactions

Trade payables	852 694 874	548 217 806
Accrued leave pay	22 045 186	21 100 887
Accrued bonus	7 744 321	9 168 647
Retentions	14 487 584	15 032 008
Salary control	2 360 860	1 916 479
Other payables	183 037	2 560 629
	<b>899 515 862</b>	<b>597 996 456</b>

### 22. Payables from non-exchange transactions

Unallocated receipts	3 464 552	4 569 139
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### 23. VAT payable

Amount payable	24 642 883	63 687 759
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### 24. Consumer deposits

Electricity & Water	23 124 103	22 651 297
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### 25. Revenue

Service charges	1 011 673 961	922 482 577
Rental of facilities and equipment	4 100 433	3 927 269
Interest received on outstanding debtors	44 537 487	55 285 404
Income from agency services	23 730 891	22 502 398
Administration and management fees received	3 139 518	6 447 309
Fees earned	5 000 739	5 488 594
Incidental income	13 003 015	1 307 224
Other income	2 700 524	29 105 501
Interest received - investment	1 538 588	1 518 368
Dividends received	26 668	52 409
Property rates	232 691 021	188 440 509
Government grants & subsidies	284 799 984	326 634 431
Public contributions and donations		198
Fines, Penalties and Forfeits	15 085 912	23 370 441
Insurance claims	542 371	733 781
	<b>1 642 571 112</b>	<b>1 588 296 413</b>

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 25. Revenue (continued)

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	1 011 673 961	922 482 577
Rental of facilities and equipment	4 100 433	3 927 269
Interest received (trading)	44 537 487	55 285 404
Agency services	23 730 891	22 502 398
Administration and management fees received	3 139 518	6 447 309
Fees earned	5 000 739	5 488 594
Incidental income	13 003 015	1 307 224
Other income	2 700 524	29 105 501
Interest received - investment	1 538 588	1 518 368
Dividends received	26 668	52 409
	<b>1 109 451 824</b>	<b>1 048 117 053</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

Fines	15 085 912	23 370 441
Government grants & subsidies	284 799 984	326 634 431
Insurance claims	542 371	733 781
Property rates	232 691 021	189 440 509
Public contributions and donations	-	198
	<b>533 119 288</b>	<b>540 179 360</b>

#### 26. Service charges

Sale of electricity	477 165 818	426 126 216
Sale of water	336 534 061	311 090 595
Sewerage and sanitation charges	91 797 608	86 988 194
Refuse removal	106 176 474	98 277 572
	<b>1 011 673 961</b>	<b>922 482 577</b>

#### 27. Other income

Advertising income	152 642	207 848
Commission	16	5 541
Landfill site	827 015	1 987 784
Surplus monies	55 453	10 379 619
Skills development refund	608 095	576 340
Settlement discount	260 524	264 224
Refuse bin sales	-	141
Photocopying	122 393	97 160
Consent use	48 352	49 750
Sundry revenue	348 048	611 268
Retention write-off	277 986	5 762 799
VAT write-off	-	9 163 027
	<b>2 700 524</b>	<b>29 105 501</b>

Sundry revenue relates to other earnings that are not the primary income generating activities of the municipality such as library lost book fines and informal trading fees.

## Govan Mbeki Municipality

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#### 28. Investment revenue

##### Dividend revenue

Other financial asset

26 668 52 409

##### Interest revenue

Short term investments

1 526 985 1 345 595

Bank

11 603 172 773

1 538 588 1 518 368

#### 29. Property rates

##### Rates received

Residential

133 883 305 120 278 884

Commercial

118 924 768 86 292 625

State

11 066 261 5 401 479

Small holdings and farms

1 936 194 837 567

Churches

1 741 547 1 261 700

Less: Income forgone

(34 861 054) (24 631 746)

232 691 021 189 440 509

##### Valuations

Residential

18 996 178 170 12 549 053 031

Commercial

5 453 627 915 3 984 846 085

State

471 588 000 368 870 907

Municipal

382 621 565 778 343 385

Small holdings and farms

2 490 882 785 1 753 680 509

Churches

1 070 355 344 214 483 145

NGO's

232 453 000 11 585 000

29 097 706 779 19 660 862 062

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

#### 30. Grants and subsidies paid

##### Other subsidies

Electricity indigent support

236 634 400 167

Sewerage indigent support

13 368 827 5 715 092

Rates indigent support

2 169 207 376 410

Refuse indigent support

6 589 461 10 465 486

Water indigent support

10 785 971 8 385 500

Pauper's burial

11 250 33 795

33 161 350 25 376 450

## Govan Mbeki Municipality

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#### 31. Government grants and subsidies

##### Operating grants

Equitable share	199 429 829	194 986 048
Extended public works programme	2 568 000	2 145 000
Financial Management Grant	1 606 783	1 165 442
Pre-capacity Grant	119 149	94 008
Municipal system improvement Grant	-	895 584
Municipal Infrastructure Skills Development	14 000 000	26 000 000
Economic Development and Tourism	1 912 766	5 037 589
Department of Minerals and Energy	-	990 000
SASOL - Point duty officers	1 830 216	2 047 350
Gert Sibande District Municipality	1 140 443	1 377 050
	<b>222 607 186</b>	<b>234 738 071</b>

##### Capital grants

Municipal Infrastructure Grant	57 196 295	63 900 236
Gert Sibande District Municipality	-	2 755 383
Sasol	5 000	226 936
SANEDI	-	8 500 000
Rand water	-	631 934
Evander Gold Mine	-	889 904
Energy Efficiency & Demand Side Management Grant	-	1 275 756
Human Settlement Grant	-	3 307 191
Intergated National Electrification programme Grant	4 991 503	2 200 000
PAN African Resources	-	5 270 424
Other Capital grant	-	2 938 596
	<b>62 192 798</b>	<b>91 896 360</b>
	<b>284 799 984</b>	<b>326 634 431</b>

##### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	85 370 155	131 648 383
Unconditional grants received	199 429 829	194 986 048
	<b>284 799 984</b>	<b>326 634 431</b>

##### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 213 (2016:200), which is funded from the grant. The subsidy is determined annually by council. All indigent residential households received 10kl water and 50kwh electricity free every month.

##### Municipal Infrastructure Grant

Balance unspent at beginning of year	2 951 830	10 964 066
Current-year receipts	55 161 000	55 888 000
Conditions met - transferred to revenue	(57 196 295)	(63 900 236)
	<b>916 535</b>	<b>2 951 830</b>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas.

##### Gert Sibande District Municipality

## Govan Mbeki Municipality

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<b>31. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	(13 684)	(13 684)
Current-year receipts	1 140 443	1 376 524
Conditions met - transferred to revenue	(1 140 443)	(1 376 524)
	<b>(13 684)</b>	<b>(13 684)</b>
This grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.		
<b>Sports and Development Grant</b>		
Balance unspent at beginning of year	<b>453 685</b>	<b>453 685</b>
This grant was received for promotion and development of sport. Projects identified for application of the grant will run in the subsequent financial year. No funds have been withheld.		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	35 263	847
Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(895 584)
Monies withheld by Treasury	<b>(35 263)</b>	-
	<b>-</b>	<b>35 263</b>
The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and is also used to improve technology networks and ward committee operations.		
<b>Pre-capacity grant</b>		
Balance unspent at beginning of year	405 992	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	<b>(119 149)</b>	<b>(94 008)</b>
	<b>286 843</b>	<b>405 992</b>
The grant was allocated to ensure that the social housing programme of provincial government was carried out. The municipality acts as an agent for implementation of the plan.		
<b>Department of Human Settlement</b>		
Balance unspent at beginning of year	(9 859 425)	(6 552 234)
Conditions met - transferred to revenue	-	(3 307 191)
	<b>(9 859 425)</b>	<b>(9 859 425)</b>
The Human settlement grant is allocated to municipality for the creation of sustainable human settlements that enables an improved quality of household life and the facilitation and provision of access to basic infrastructure, top structures and basic social and economic amenities that contribute to the creation of sustainable human settlements.		
<b>SASOL</b>		
Balance unspent at beginning of year	<b>15 116 475</b>	<b>15 116 475</b>
<b>Financial Management Grant</b>		
Balance unspent at beginning of year	434 558	-
Current-year receipts	1 625 000	1 600 000
Conditions met - transferred to revenue	(1 606 783)	(1 165 442)
Monies withheld by Treasury	(434 558)	-

## Govan Mbeki Municipality

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#### 31. Government grants and subsidies (continued)

18 217 434 558

The Finance Management Grant is allocated to assist the municipality to secure sound and sustainable management of the fiscal and financial affairs and to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

#### Extended Public Works Programme

Current-year receipts	2 568 000	2 145 000
Conditions met - transferred to revenue	(2 568 000)	(2 145 000)
	-	-

EPWP grant incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus area and in compliance with the EPWP guidelines.

#### Municipal Skills Development Grant

Current-year receipts	14 000 000	26 000 000
Conditions met - transferred to revenue	(14 000 000)	(26 000 000)
	-	-

The grant is allocated to support the municipality to build long term and sustainable capacity by training a pool of young professionals in technical and project/operations management skills.

#### SANEDI

Current-year receipts	-	8 500 000
Conditions met - transferred to revenue	-	(8 500 000)
	-	-

Funds received from SANEDI to fund smart grid programme.

#### Energy Efficiency & Demand Side Management Grant

Balance unspent at beginning of year	10 000	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(990 000)
Monies withheld by Treasury	(10 000)	-
	-	10 000

Provision of subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

#### Integrated National Electrification Programme Grant

Current-year receipts	5 000 000	2 200 000
Conditions met - transferred to revenue	(4 991 503)	(2 200 000)
	8 497	-

Implementation the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including upgrade of informal settlements, new, and normalisation), and the installation of relevant bulk infrastructure.

#### Economic Development and Tourism

## Govan Mbeki Municipality

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#### 31. Government grants and subsidies (continued)

Balance unspent at beginning of year	(237 589)	-
Current-year receipts	2 464 255	4 800 000
Conditions met - transferred to revenue	(1 912 766)	(5 037 589)
	<b>313 900</b>	<b>(237 589)</b>

Contribution towards the detailed technical feasibility study and the development of business plan for establishment of Industrial Park.

#### 32. Public contributions and donations

Public contributions and donations	-	198
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#### 33. Employee related costs

Basic	228 947 381	219 360 164
Bonus	16 574 157	15 071 540
Medical aid - company contributions	27 447 278	25 444 849
UIF	2 378 743	2 381 391
SDL	4 335 739	3 494 855
Leave pay provision charge	3 637 523	2 738 831
Pension fund contribution	46 627 534	44 577 704
Defined contribution plans	3 767 851	3 507 987
Travel, motor car, accommodation, subsistence and other allowances	15 435 056	15 377 314
Overtime payments	22 295 114	15 273 476
Long-service awards	3 391 000	3 474 000
Cellphone allowance	2 127 099	2 069 682
Allowances standby	14 107 189	11 654 730
Industrial council levy	124 912	124 632
Non pensionable allowance	48 719 761	44 288 777
Housing subsidy	2 961 455	2 972 724
	<b>442 877 792</b>	<b>411 812 656</b>

#### Remuneration of Municipal Manager: Mahlangu MF

Annual Remuneration	1 034 920	1 137 796
Car Allowance	67 734	108 000
Bonus	13 600	21 780
Contributions to UIF, Medical and Pension Funds	211 223	304 185
	<b>1 327 477</b>	<b>1 571 761</b>

The Municipal Manager was appointed on 16 January 2012. The contract for Mr MF Mahlangu ended on the 28 February 2017, Mr Michelle the Regional Manager acting as the Accounting officer since the 1 March 2017 - 18 August 2017.

#### Remuneration of Chief Financial Officer: Mokgatsi MJ

Annual Remuneration	1 246 833	1 051 709
Car Allowance	96 000	96 000
Bonus	16 200	21 600
Contributions to UIF, Medical and Pension Funds	234 336	234 584
	<b>1 593 369</b>	<b>1 403 893</b>

The Chief Financial Officer was appointed on 01 June 2010. Mr Mokgatsi's contracted ended on the 30 June 2017, Mr Mahlangu the Deputy Director Revenue Acting as the CFO since the 1 July 2017

## Govan Mbeki Municipality

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#### 33. Employee related costs (continued)

##### Remuneration of Director Corporate: Mahlangu ZL

Annual Remuneration	930 777	878 212
Car Allowance	96 000	96 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	184 823	186 533
	<b>1 233 200</b>	<b>1 182 345</b>

The director was appointed on 01 April 2013

##### Remuneration of Director Community Services: Zulu ET

Annual Remuneration	781 632	729 773
Car Allowance	336 000	336 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	154 459	152 728
	<b>1 293 691</b>	<b>1 240 101</b>

The director was appointed on 15 April 2013

##### Remuneration of Director Planning and Development: Wetbooi NS

Annual Remuneration	894 954	851 340
Car Allowance	96 000	96 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	159 679	157 266
	<b>1 172 233</b>	<b>1 126 206</b>

The director was appointed on 01 April 2013

##### Regional Manager: Sihlali HK

Annual Remuneration	797 344	751 926
Car Allowance	120 000	120 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	164 808	163 128
	<b>1 103 752</b>	<b>1 056 654</b>

##### Regional Manager: Mashiane MR

Annual Remuneration	807 336	758 452
Car Allowance	120 000	120 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	166 309	167 599
	<b>1 115 245</b>	<b>1 067 651</b>

Regional manager was appointed on 01 February 2014

## **Govan Mbeki Municipality**

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#### **33. Employee related costs (continued)**

**Regional Manager: Michele ME**

Annual Remuneration	784 785	738 240
Car Allowance	144 000	144 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	164 861	163 353
	<b>1 115 246</b>	<b>1 067 193</b>

Regional manager was appointed on 01 February 2014

**Remuneration of Director Technical Services Masia MH**

Annual Remuneration	748 313	683 539
Car Allowance	96 000	96 000
Bonus	21 600	21 600
Contributions to UIF, Medical and Pension Funds	149 461	138 947
	<b>1 015 374</b>	<b>940 086</b>

The director was appointed on 1 March 2015



# Govan Mbeki Municipality

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### 34. Remuneration of councillors

Councillors

20 574 230 19 725 917

#### Councillors

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of political office bearers and councillors is within the upper limits as determined by Remuneration of Public Officers Bearers Act no. 20 of 1998 and as per Government Gazette no. 37281.

Councillor	Appointment date	SALARY	Pension	Medical aid	Other allowances	Total
Badenhorst HJ	2017/07/05	170 828,13	25 625,40	-	73 071,48	269 525,01
Bosch PR	2017/07/05	57 355,52	8 129,00	-	24 357,16	89 841,68
Botha C	2017/07/05	203 273,62	30 491,40	12 960,00	22 800,00	269 525,02
Buthelezi T M	2017/07/05	25 905,61	2 762,85	-	6 649,94	35 318,40
Cardinal Von Widdern TD	2017/07/05	152 585,65	22 889,00	12 960,00	52 370,49	240 805,14
Chamberlain M	2017/07/05	184 169,00	27 625,65	8 640,00	20 370,49	240 805,14
De Vries GR	2017/07/05	214 543,22	32 181,80	-	22 800,00	269 525,02
Denny TM	2017/07/05	170 828,13	25 625,40	-	73 071,48	269 525,01
Dube TH	2017/05/26	21 934,17	2 682,00	-	2 274,79	26 890,96
Fourie ME	2017/07/05	210 099,02	31 703,05	-	22 800,00	264 602,07
Gwiji CV	2017/07/05	372 387,35	55 859,30	17 280,00	149 176,74	594 703,39
Hlolweni S	2017/07/05	170 192,58	25 530,05	-	45 082,50	240 805,13
Khayiyana MZC	2017/07/05	48 183,38	5 050,20	-	12 933,88	66 167,46
Klaas NP	2017/07/05	191 682,00	28 752,65	-	20 370,49	240 805,14
Labuschagne P J	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
Lukhele I	2017/07/05	191 682,00	28 752,65	-	20 370,49	240 805,14
Mabena SS	2017/07/05	20 405,89	2 032,25	-	6 649,94	29 088,08
Mabizela TM	2017/07/05	191 682,00	28 752,65	-	20 370,49	240 805,14
Maboa- Boltman NF	2017/07/05	589 751,95	88 463,90	15 840,00	25 070,15	719 126,00
Mahlangu BD	2017/07/05	155 802,48	23 371,05	17 280,00	73 071,48	269 525,01
Mahlangu BD	2017/07/05	185 421,20	27 813,45	7 200,00	20 370,49	240 805,14
Mahlangu BS	2017/07/05	46 462,07	5 050,20	-	12 933,88	64 446,15
Mahlangu E	2017/07/05	186 673,40	28 001,25	5 760,00	20 370,49	240 805,14
Mahlangu NP	2017/07/05	141 355,85	21 204,10	12 960,00	65 285,18	240 805,13
Mahlangu SM	2017/07/05	20 405,89	2 032,25	-	6 649,94	29 088,08
Majozi NE	2017/07/05	20 405,88	2 032,25	-	6 649,94	29 088,07
Makhanye SA	2017/07/05	383 158,82	57 475,05	17 280,00	148 478,76	606 392,63
Makola MB	2017/07/05	164 934,06	24 638,25	-	79 849,56	269 421,87
Malaza NG	2017/07/05	191 682,00	28 752,65	-	20 370,49	240 805,14
Masango JM	2017/07/05	20 405,88	2 032,25	-	6 649,94	29 088,07
Masango SA	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
Maseko TM	2016/12/01	140 654,71	18 772,80	-	13 421,40	172 848,91
Masina HS	2017/07/05	19 153,73	1 844,40	1 440,00	6 649,94	29 088,07
Masina LI	2017/07/05	66 881,43	6 545,75	1 440,00	17 072,50	91 939,68
Masombuka SM	2017/07/05	1 850,12	2 390,85	1 440,00	2 460,65	8 141,62
Masuku PIP	2017/07/05	149 785,85	22 281,10	8 640,00	59 909,85	240 616,80
Mathabé NM	2017/07/05	20 405,88	2 032,25	-	6 649,94	29 088,07
Mathebula SB	2017/07/05	214 543,22	32 181,80	-	22 800,00	269 525,02
Mayisa JS	2017/07/05	19 153,73	1 844,40	1 440,00	6 649,94	29 088,07
Mazibuko KD	2017/07/05	152 625,05	22 894,90	-	65 285,18	240 805,13
Mbokazi AV	2017/07/05	194 258,38	23 596,10	-	58 909,68	277 764,16
Mbonani LM	2017/07/05	191 682,00	28 752,65	-	20 370,49	240 805,14
Mkhalihi S	2017/07/05	152 625,05	22 894,90	-	65 285,18	240 805,13
Mkhwanazi ZG	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
Mkwebane ZA	2017/07/05	214 543,22	32 181,80	-	22 800,00	269 525,02
Mngomezulu MP	2017/07/05	20 405,88	2 032,25	-	6 649,94	29 088,07
Mnisi TR	2017/07/05	186 305,20	27 946,45	6 183,00	20 370,49	240 805,14
Mofokeng TS	2017/07/05	191 682,00	28 752,65	-	20 370,49	240 805,14

# Govan Mbeki Municipality

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### 34. Remuneration of councillors (continued)

Mokoena BD	2017/07/05	152 625,05	22 894,90		65 285,18	240 805,13
Moloto BD	2017/07/05	174 490,35	26 174,70		40 140,08	240 805,13
Morajane TA	2017/07/05	152 625,05	22 894,90		65 285,18	240 805,13
Mosomane MI	2017/07/05	135 206,07	20 281,30		58 857,53	214 344,90
Motaung AD	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Motloung ME	2017/07/05	182 742,45	27 412,20		30 650,49	240 805,14
Mtshali PD	2017/07/05	397 343,50	59 602,65		148 478,76	605 424,91
Mtsweni LJ	2017/07/05	20 405,88	2 032,25		6 649,94	29 088,07
Mtsweni MJ	2017/07/05	170 828,13	25 625,40		73 071,48	269 525,01
Mtsweni TA	2017/07/05	269 424,30	40 414,05	17 280,00	242 194,92	569 313,27
Mtsweni TP	2017/07/05	371 406,36	55 712,10		142 194,82	569 313,28
Mukhwanazi AO	2017/07/05	148 703,74	22 306,80		69 794,60	240 805,14
Mvundla WI	2017/07/05	20 405,88	2 032,25		6 649,94	29 088,07
Mzinyane TE	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
Ndaba BB	2017/07/05	348 447,23	52 268,20	17 280,00	151 317,82	569 313,25
Ndinisa BJ	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Ndlovu SJ	2017/07/05	20 405,88	2 032,25		6 649,94	29 088,07
Ndoda NM	2017/07/05	191 682,00	28 752,65		20 370,49	240 805,14
Ndwanyaza PN	2017/07/05	191 682,00	28 752,65		20 370,49	240 805,14
Nel Buitendag AD	2017/07/05	191 682,00	28 752,65		20 370,49	240 805,14
Ngxonono YT	2017/07/05	383 158,82	57 475,05	17 280,00	148 478,76	606 392,63
Nhlapho Md	2017/07/05	180 959,44	32 689,04		73 071,48	286 719,96
Njinga SC	2017/07/05	188 039,11	28 206,25		24 559,78	240 805,14
Nkabinde E R	2017/07/05	143 525,44	21 529,90	15 840,00	59 909,85	240 805,19
Nkabinde JB	2017/07/05	170 828,13	25 625,40		73 071,48	269 525,01
Nkabinde MA	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Nkambule FB	2017/07/05	48 183,32	5 050,20		12 933,88	66 167,40
Nkokoane ME	2017/07/05	24 048,77	2 578,65		2 460,65	29 088,07
Nkosi MJ	2017/07/05	170 828,13	25 625,40		73 071,48	269 525,01
Nkosi NE	2017/07/05	383 158,82	57 475,05	17 280,00	148 478,76	606 392,63
Nkosi NK	2017/07/05	20 405,88	2 032,25		6 649,94	29 088,07
Ntuli GN	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,07
Ntuli SR	2017/07/05	191 682,00	28 752,65		20 370,49	240 805,14
Nxumalo NJ	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
Nzama PG	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Pretorius RJ	2017/07/05	20 405,88	2 032,25		6 649,94	29 088,08
Sebolela JD	2017/07/05	152 625,05	22 894,90		6 649,94	29 088,07
Shai KJ	2017/07/05	171 443,58	24 807,30		65 285,18	240 805,13
Sibande ES	2017/07/05	19 153,74	1 844,40	1 440,00	34 980,95	231 231,83
Sibanyoni SI	2017/07/05	158 923,00	23 839,50	14 400,00	6 649,94	29 088,08
Sithole LE	2017/07/05	146 740,78	22 012,20	14 400,00	45 082,59	242 245,09
Swart EP	2017/07/05	191 682,00	28 752,65	7 200,00	64 852,27	240 805,25
Thabeyhe IM	2017/07/05	182 742,40	27 412,25		20 370,49	240 805,14
Tlou DI	2017/07/05	19 153,74	1 844,40	1 440,00	30 650,49	240 805,14
Tsotetsi TJ	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Van Baalen JA	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
Van Huysteen NC	2017/07/05	155 802,48	23 371,05	17 280,00	73 071,48	269 525,01
Van Rooyen EJ	2017/07/05	170 828,13	25 625,40		73 071,48	269 525,01
Victor NS	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Vilakazi EA	2017/07/05	155 802,48	23 371,05	17 280,00	73 071,48	269 525,01
Zulu NN	2017/07/05	20 405,89	2 032,25		6 649,94	29 088,08
Zulu TS	2017/07/05	170 828,13	25 625,40		73 071,48	269 525,01
Zuma NG	2017/07/05	375 041,37	56 256,45		148 616,99	579 914,81
Zwane PJ	2017/07/05	19 153,74	1 844,40	1 440,00	6 649,94	29 088,08
<b>Total</b>		<b>14 072 919,84</b>	<b>2 065 908,89</b>	<b>304 263,00</b>	<b>4 131 138,83</b>	<b>20 574 230,56</b>

## Govan Mbeki Municipality

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### 34. Remuneration of councillors (continued)

#### Appointments

Govan Mbeki Municipality after local government elections that took place on the 1 August 2016 - 3 August 2016 the above elected council was sworn in office on the 18 August 2016

Terminations	Date	Reason
Mtsweni TA	2017/06/25	Death
Bosch PR	2016/10/31	Resignation
Mosomane MI	2017/05/25	Resignation

### 35. Depreciation and amortisation

Property, plant and equipment	158 759 461	160 700 905
Intangible assets	535 433	481 164
	<b>159 294 894</b>	<b>161 182 069</b>

### 36. Impairment of assets

Impairments	8 644 861	1 693 493
Property, plant and equipment		

### 37. Finance costs

Employee obligation interest	6 715 000	6 686 000
Trade and other payables	32 393 223	29 148 529
Finance leases	791 677	1 033 349
Bank	-	3
Current borrowings	772 950	1 135 365
Land fill site	1 776 522	2 423 069
	<b>42 449 372</b>	<b>40 426 315</b>

### 38. Debt impairment

Debt impairment	227 097 345	140 889 950
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### 39. Bulk purchases

Electricity	578 189 444	501 281 325
Water	239 097 223	217 821 000
	<b>817 286 667</b>	<b>719 102 325</b>

### 40. Contracted services

Legal services	8 776 844	4 806 085
Meter reading	9 769 411	9 967 529
Security services	25 935 853	21 191 676
Professional fees	11 386 087	10 644 267
Other contractors	29 756 038	31 090 938
	<b>85 624 233</b>	<b>77 700 495</b>

Other contractors mainly include contracted sewerage purification services, prepaid vending management as well as assessment services.

# Govan Mbeki Municipality

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### 41. General expenses

Advertising	14 823	52 892
Animal Costs	60 000	230 000
Auditors remuneration	4 259 187	4 662 721
Bank charges	3 597 670	3 807 301
Cleaning	16 113	-
Conferences and seminars	66 000	18 000
Connection fees	692 968	480 578
Consumables	808 576	925 775
Donations	57 147 850	-
Entertainment	136 159	58 151
Fleet	2 446 568	2 258 332
Grants expenditure	20 448 720	32 426 082
Investigation fees	-	302 877
IT expenses	1 388 714	656 900
Insurance	2 583 788	4 328 494
Inventory losses	593 669	1 312 236
Medical expenses	83 340	33 787
Motor vehicle expenses	3 156 269	3 329 026
Other expenses	846 419	639 182
Pest control	1 375	7 099
Placement fees	67 721	31 643
Postage and courier	2 415 321	2 472 180
Presenting costs	117 518	32 520
Printing and stationery	2 481 459	2 923 250
Professional fees	4 044 779	4 355 307
Promotions and sponsorships	846 246	1 500
Protective clothing	1 742 010	1 683 804
Rehabilitation costs	55 257	57 607
Rental: machinery & equipment	8 207 701	14 175 576
Subscriptions and membership fees	4 948 259	4 481 622
TV licenses	28 162	20 920
Telephone and fax	1 834 970	2 127 315
Transport and freight	12 060 772	12 602 445
Travel	953 939	879 204
Workshop	2 947 436	3 406 371
	141 099 758	104 780 697

### 42. Fair value adjustments

Investment property	89 121 714	-
Other financial assets	(174 117)	(22 735)
	88 947 597	(22 735)

### 43. Auditors' remuneration

Fees	4 259 187	4 662 721
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# Govan Mbeki Municipality

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### 44. Cash generated from operations

Deficit	(631 973 219) (216 116 523)	
<b>Adjustments for:</b>		
Depreciation and amortisation	159 294 894	161 182 069
Loss on sale of assets	319 495 177	19 410 300
Actuarial gains/(losses)	(4 677 000)	(2 623 000)
Fair value adjustments	(88 947 597)	22 735
Impairment on assets	8 644 861	1 693 493
Debt impairment	227 097 345	140 889 950
Grants and subsidies-non cash	33 161 350	25 376 450
Other non-cash items	6 040 188	(67 856 825)
Donations	57 147 850	-
	<b>85 283 849</b>	<b>61 978 649</b>

### 45. Commitments

#### Authorised capital expenditure

Already contracted for but not provided for	60 166 385	84 786 519
<ul style="list-style-type: none"> <li>Property, plant and equipment</li> </ul>		

#### Authorised operational expenditure

Already contracted for but not provided for	41 475 180	100 149 726
<ul style="list-style-type: none"> <li>Operating contracts commitments</li> </ul>		

#### Total commitments

Total commitments	60 166 385	84 786 519
Authorised capital expenditure	41 475 181	100 149 726
Authorised operational expenditure	101 641 566	184 936 245

#### Commitment correction and reclassification

Reclassification of R 4 806 049 from operational commitments to capital commitments in the previous year.

The project for construction of new road was capitalised last year and incorrectly classified as commitment. The effect of correction relating to commitments disclosed to the value of R 3 420 776 were completed in the previous financial, however they were disclosed as commitments.

# Govan Mbeki Municipality

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### 46. Contingencies

#### Contingent liabilities

The following legal proceedings are currently in progress and are represented by various attorneys:

##### Cronje De Waal & Skhosana

Govan Mbeki Municipality vs Piet Bok Construction cc	9 021 856	9 021 856
Govan Mbeki Municipality vs Bosch	25 781 855	25 781 855
Govan Mbeki Municipality vs NICS (Pty) Ltd	40 000 000	
	<b>74 803 711</b>	<b>34 803 711</b>

##### Ramathe MJ Attorneys

Govan Mbeki Municipality vs Junior Joubert	-	102 000
Govan Mbeki Municipality vs Khumalo Sam and Moses	-	130 000
Govan Mbeki Municipality vs CP Roers obo Snoers	550 000	550 000
	<b>550 000</b>	<b>782 000</b>

##### TMN Kgomo Attorneys

Govan Mbeki Municipality vs Fikile Esther Hlanze	-	124 900
Govan Mbeki Municipality vs JH Odendaal	255 000	255 000
	<b>255 000</b>	<b>379 900</b>

##### Other

Govan Mbeki Municipality vs MBV Mavuso/Minor children	800 000	800 000
Govan Mbeki Municipality vs Jannie Welthagen	8 900	8 900
Govan Mbeki Municipality vs Vos Viljoen & Burger	-	5 640
Govan Mbeki Municipality vs Simstone Pty Ltd and Moanalesa	-	21 000
Govan Mbeki Municipality vs Marnelle Rauch	21 000	10 901
Govan Mbeki Municipality vs Hermanus Steyn	-	238 369
Govan Mbeki Municipality vs Elvis Lerato Mosele	2 250 000	2 250 000
Govan Mbeki Municipality vs Mashego Phetla	19 875	19 875
Govan Mbeki Municipality vs Telkom	90 332	90 333
Govan Mbeki Municipality vs Telkom/Thisila Enterprises	-	25 000
Govan Mbeki Municipality vs Kenneth Frank Cameron	-	3 100 000
Govan Mbeki Municipality & M I Makhanye vs K R Lester	-	250 641
Govan Mbeki Municipality vs Telkom SA	19 583	11 131
Govan Mbeki Municipality vs J E Mabona//Public Protector	-	1 581 053
Govan Mbeki Municipality vs Joseph Visagie	135 413	135 413
Govan Mbeki Municipality vs Coleman Catharina Talita	750 000	750 000
Govan Mbeki Municipality vs Gwen Borthardt	7 320	-
Govan Mbeki Municipality vs C Venske	700 000	-
Govan Mbeki Municipality vs Johnston Ronald Graeme Murray	2 250 000	-
Govan Mbeki Municipality vs Revco (Pty)Ltd	443 997	-
Govan Mbeki Municipality vs EDSE	307 749	-
Govan Mbeki Municipality vs SMEC South Africa	129 964	-
	<b>7 934 133</b>	<b>9 298 256</b>

#### Total contingent liabilities

**83 542 844 45 274 539**

#### Contingent assets

In addition to the court cases disclosed below, there are certain court cases which are more complex and costs cannot be determined. The following are the determinable contingent assets:

##### Cronje De Waal & Skhosana Attorneys

Mindsgate vs Govan Mbeki Municipality	2 000 000	2 000 000
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## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
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#### 46. Contingencies (continued)

<b>TMN Kgomo and Associates</b>		
Management Skills vs Govan Mbeki Municipality		427 000
Total contingent assets	2 000 000	2 427 000

#### 47. Related parties

<b>Relationships</b>	
Duduzile Maseko - employee	Director of Lucky Jane trading and projects is a co-director in Siyaticenga ngani trading CC with Duduzile Maseko.
Ellen Sarah khumalo - employee	Director of Minoah Suppliers and projects is a co-director in Tsalanang investments ( PTY) LTD with Ellen Khumalo(employee).
Sipho Fakude - employee	Director of Singemalangeni Logistics cc and projects is a co-director in Nkomasefa trading and project cc with Sipho Fakude (employee).
Nontembiso Sqoko - employee	Director of Sondie Trading enterprise and projects is a co-director inikhwezi primary co-operative limited Nontembiso Sqoko(employee).
Zakhele Masilela - employee	Director of Clarabarna general trading cc is a co-director in NkoSix skipas trading and project cc with Zakhele Masilela (employee).
Zakeu Mahlangu	Director of TMN Kgomo & associates and projects is a co-director Brodsky trading 180 Zakeu Mahlangu (Director Corporate Services).
Christina Mahlangu - employee	Director of Ndluwakho Construction & Projects is the spouse to Cristine Mahlangu (employee ).
Busiwe Mathebula - employee	Director of Vuma Konke Transport & Project CC is the spouse to Busiwe Mathebula (employee).
Members of key management	BM Mhlanga MM Mahlangu MJ Mokgatsi ET Zulu ZL Mahlangu NS Wetbooi HK Sihlali ME Michele MR Mashiane MH Masia MJ Mahlangu

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 47. Related parties (continued)

#### Related party balances

##### Amounts included in Trade payables

Clarabarna general trading cc	139 956	-
Sondie Trading enterprise	43 776	-
Lucky Jane Trading and Projects	-	1 381 206
Thisila Trading Enterprise	-	273 144
Westvaal Holding (Pty) Ltd	-	37 441
Vuma Konke Transport & Project CC	1 063 944	-

##### Amounts included in statement of financial performance

###### Hire of plant equipment

Vuma Konke Transport and project CC	11 518 740	12 295 229
Lucky Jane Trading and Projects	301 644	136 800
Singamalangeni Logistics CC	251 712	413 136
Sondie Trading Enterprise	828 504	404 900
Thisile Trading Enterprise	-	372 324
Ndluwakho Construction & Projects	50 524	-

###### Consumables

Minoah suppliers solutions (pty) Ltd	-	3 524
Clarabarna General Trading	340 982	712 070

###### Legal services

TMN Kgomo & Associates	1 896 087	821 169
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###### Repairs and Maintenance

Westvaal Holdings (Pty) Ltd	-	160 889
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## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 48. Change in estimate

#### Property, plant and equipment

GRAP 17: Property, Plant and Equipment requires that the review of the remaining useful life of an item of property, plant and equipment to be conducted at least at each financial year end. Such review has been completed and the following results were achieved.

##### Change in depreciation resulting from reassessment of useful lives. The following categories are affected:

Library books  
Computer equipment  
Transport Assets  
Other machinery and equipment  
Furniture and office equipment  
Buildings  
Electricity  
Roads and Stormwater  
Cemetery  
Airport  
Water  
Landfill site

	Value derived using the original estimate	Value derived using amended estimate	R-value impact of change in estimate
430 001	207 178	222 823	
1 044 564	364 675	679 889	
3 742 227	1 339 158	2 403 069	
2 171 485	790 739	1 380 746	
2 252 150	771 786	1 480 364	
308 148	127 100	181 048	
194 009	94 291	99 718	
1 131 709	458 431	673 277	
6 675	3 023	3 653	
18 421	6 151	12 269	
2 457	874	1 583	
92 736	30 954	61 781	
<b>11 394 582</b>	<b>4 194 360</b>	<b>7 200 220</b>	

##### Change in depreciation resulting from reassessment of residual value. The following categories are affected:

Transport Assets  
Other machinery and equipment

	Value derived using the original estimate	Value derived using amended estimate	R-value impact of change in estimate
-	140 686	140 686	
-	739	739	
<b>-</b>	<b>141 425</b>	<b>141 425</b>	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

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### 49. Prior period errors

#### 1. Landfill site

Useful lives of the landfill site as per the asset register of 2016 not correctly aligned to the useful lives included in the Landfill Rehab & Closure Provisions report of 2016. The effect of the correction was increase in the Landfill site assets, decrease in the accumulated depreciation and decrease in depreciation with an amount of R 756 367.75.

#### 2. Assets Under Construction

Construction of sports and recreational community hall (multi-purpose centre) in Emzinoni was incorrectly unbundled in the prior year, practical completion certificate was used instead of the final completion certificate. The effect of correction increased Property, plant and equipment R 5 879 and decrease in depreciation by R 5 879.

#### 3. Library books

During the assets verification process Library books were found on the floor and not in the asset register. The newly found assets were valued to R 91 657. The effect of the correction resulted in an increase in Library goods by R 91 657, increased depreciation by 10 184 and increased accumulated depreciation by R 20 196 and decrease in accumulated surplus by R 81 645.

#### 4. Land

Reversing of the disposal in the prior period and correctly disposing the property in the current year as a result of the amendment in deed of sale. The effect of the correction decreased land by R 722 220, increased creditors by R 171 000, decrease in profit on sale of assets by R 144 546.19, decrease in vat liability by R 21 000 and decrease opening accumulated surplus by R 727 674.

#### 5. Movables

Assets written off by insurance not removed from the asset register after the claim was approved. The correction resulted in a decrease of Property, Plant and Equipment by R 25 760, decrease in depreciation by R 4 912 and increase loss on disposal of assets by R 30 673.

Assets stolen in Kinross storeroom and reported in August 2015 was not removed from the asset register in the 2016 asset register. The removal of assets from the register decreased property, plant and equipment by R 7 894 and increased loss on disposal of assets by R 7 894.

#### 6. Buildings

Land occupied by Secunda Lapa 2 was sold in 2006, the land was removed from the asset register however the building associated with the land was not removed from the asset register. The effect of the correction decreased buildings by R 86 034, decreased depreciation by 17 577 and increased retained opening balance by R 70 407.

Correction of communications of findings 12 of 2016 on buildings depreciation which was incorrectly captured as a credit instead of debit. The effect of the correction resulted in the increase in depreciation and decrease in property, plant and equipment by R 33 204.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 49. Prior period errors (continued)

#### 7. Investment Property

The asset management policy was changed to account for sale of properties in full when the full payment is made and the deed of sale is signed. The effect of the correction resulted in a decrease in investment property by R 180 000, and opening accumulated surplus decrease by R 180 000.

#### 8. Consumer debtors

Consumer accounts were incorrectly billed in previous year due to various reasons i.e. incorrect tariff charged, incorrect readings, supplementary valuations etc., the correction of the error resulted in decrease in consumer debtors by R 32 158 025, decrease in receivables from non exchange by R 1 339 231, decrease in long term receivables by R 51 601, increase in property rates revenue by R 1 091 776, decrease in service charges by R 28 661 034, decrease in VAT liability by R 3 445 390, and increase in rental income by R 282 098.

#### 9. Other income

Licence fees for municipal cars registration for previous year which were not removed from the suspense vote to licensing income. Amount for registration of municipal car for June 2016 has been recognised in July 2017, which overstated the licensing fees of 2016/17 year.

Library fees to the value of R 68 442 were incorrectly recorded as Sundry deposit in statement of Financial Position instead of income. The effect increased income from agency fees by R 72 328, Other income increased by R 68 442 and Payables from non-exchange transactions decreased by R 140 770.

Retention liability to the value of R 59 893 was erroneously not written off in the previous financial year. The correction resulted in an increase in other income and decrease in trade and other payables by the same amount.

#### 10. Bulk purchases water

In 2014 consultation processes by Rand water Eskom informed them that the electricity tariff will increase by 15% however NERSA approved a 10.05% increase. The adjustment there-of resulted in an adjustment of 4.6cents per kilolitre on the sales tariff invoiced to customers. As a result Rand Water refunded the municipality the over invoiced amounts. The impact there-of resulted in an increase in opening accumulated surplus by R 3 387 561, decrease in Trade and other receivables by R 11 378 415. Increase in VAT liability by R 1 335 731.73 and decrease in bulk purchases by R 6 448 688.

#### 11. Trade and other payables

The municipality entered into an agreement on the 9 June 2016 to repay its long outstanding debts in intervals. The agreement was for long term however the municipality did not accurately disclose the non current portion of the debts in the financial statements. The correction increased the other financial liabilities by R 38 544 099 and decreased trade payables by the same amount.

#### Statement of financial position

##### Non current assets

Property plant and equipment	(36 407)
Investment property	180 000
Long term receivables	51 601
	<hr/>
	195 194

##### Current assets

Consumer debtors	(31 875 928)
Trade receivables from exchange transactions	11 378 415
Trade receivables from non-exchange transactions	(1 091 776)
	<hr/>
	(21 589 289)

##### Current liabilities

Payables from exchange transactions	38 672 454
Payables from non-exchange transactions	(98 672)

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 49. Prior period errors (continued)

VAT	2 096 014
	<u>40 669 796</u>

### Non - Current Liabilities

Non current liabilities	<u>(38 544 099)</u>
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### Accumulated surplus

Accumulated Surplus - opening	- (2 923 871)
-------------------------------	---------------

### Statement of financial performance

#### Revenue

Service charges	28 661 034
Property rates	1 091 776
Income from agency fees	(72 328)
Interest received on outstanding debtors	(206 430)
Other income	(59 893)
Rental income	(238 375)
Profit and loss on sale of assets	208 653
	<u>29 384 437</u>

#### Expenditure

Depreciation	(743 462)
Bulk purchases	(6 448 688)
	<u>(7 192 150)</u>

### 50. Comparative figures

Certain comparative figures have been reclassified.

### 51. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

##### Market risk

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Notes to the Annual Financial Statements for the year ended 30 June 2017**

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### **51. Risk management (continued)**

#### **Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

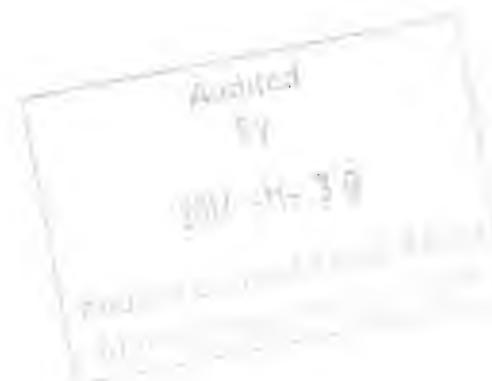
### **52. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **53. Events after the reporting date**

The following events occurred after reporting date however before the issue of the financial statements to the office of the Auditor General:

#### **Adjusting events**



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 53. Events after the reporting date (continued)

The following items were written off by council subsequent year end in the council sitting held on the 29 August 2017 through council resolution A78/08/2017, subsequent adjustments were made in the annual financial statement:

#### Movable and intangible assets

Total number of 4511 assets with a carrying value of R 2 505 112 was identified for write off on the fixed assets register and the annual financial statements. The write-off was as a result of the following:

- Assets kept on the register however could not be found during the physical verification for three consecutive financial years.
- Assets written off by insurance company
- Assets lost
- Laptops disposed to outgoing councillors.

#### Investment property and land

Total number of 53 assets with a carrying value of R 2 837 674 was identified for write off on the fixed assets register and the annual financial statements. The write-off was as a result of the following

- Property descriptions that could not be traced on the deeds due to the fact that the township was relayed out and subsequently consolidated
- Properties which were erroneously kept on the register whereby RDP houses were approved by the department of human settlement
- The Land register erroneously included properties which are privately owned and the municipality has no control over those properties

#### Landfill Sites

Total of 3 landfill sites assets with the carrying amount of R 145 070 which were stolen during the year which were reported to the insurance company.

#### Buildings

The building register included Secunda Lapa 2, the land where the Lapa was erected was sold to Velvet Moon Properties 55 Pty (Ltd) in terms of a signed agreement in 2006. The land was removed from the register; however, the building was erroneously left on the register and was demolished by the owner of the Land.

#### Library Books

Total number of 2254 assets with a carrying value of R 187 851 was identified for write off on the fixed assets register and the annual financial statements. The write-off was as a result of the following:

- 437 books that could not be found during physical verification for three consecutive financial years, i.e. 2015, 2016 and 2017.
- donation of 1 817 books that are mutilated due to heavy or regular use by library users.

#### Retentions

An unclaimed retention to the value of R 337 879.48 was written off as per the retention policy of council.

The retention policy approved by council states that "it is the responsibility of the contractor to submit a claim for the retention once the defects liability period has lapsed. Unclaimed retentions which is over two (2) years after the defect liability period will be written off based on this policy and amount written off from the retention register and municipality's accounting records

#### Inventory

An amount of R593 673.84 was written off due to stock count variances identified during physical between actual stock on the floor and SEBATA financial management system

#### Consumer debtors

Council approved 927 write-off total amount of R 10, 816, 645-90 in respect of the Irrecoverable Bad Debt registered indigents, against the provision for bad debt in terms of Sections 25 of the Credit Control & Debt Collection Policy due to the following :

- In 2016/2017 the council has approved 4339 indigent applications write-off to the value of R 45 208 904.44 as per Council Resolution A10/01/2017, when the list was submitted to the Council for approval it was noted that the list had only current balances of R 45 208 904.44 and the balances on the loan accounts were not included to the value of R 10 816 645.90.
- Loan accounts consisted of the debtors handed over to our collection agencies or debtors who signed arrangements before they were approved as indigents.

#### Irregular expenditure

Irregular expenditure amounting to R142 191 756 were approved for write-off by council.

-Included in the opening balance of R92 239 723 is additional irregular expenditure amounting to R60 177 377 from the

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Notes to the Annual Financial Statements for the year ended 30 June 2017**

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### **53. Events after the reporting date (continued)**

previous financial year that was raised by the Auditor General during the audit.

#### **Deviations**

Section 4(2)(1) of the Supply Chain Management Policy read with item 26(2) of Municipal Supply Chain Regulation states that the accounting officer may dispense with the official procurement processes and must record reasons and report to the next Council Meeting and include as a note in the Annual Financial Statements. The total amount of R 2 375 050 incurred as a result of emergencies, services received from sole proprietors and where it was impractical to follow SCM processes was disclosed and reported.

#### **Fruitless and wastefull expenditure**

Fruitless and Wasteful Expenditure Register incurred during the 2016/2017 financial year amounting to R 32 393 223 was approved for write-off by council.

Fruitless and Wasteful Expenditure was incurred due to late payments of service providers mainly Eskom, Auditor General and Rand Water accounts and late payments are the results of cash flow constraints.

#### **Unauthorised expenditure**

Unauthorized expenditure to the value of R 596 991 924 (2016: R 2 432 461) was approved by council for write off.

- The unauthorised expenditure of 2017 amounting to R 596 991 924 was as a result of the differences identified between the budgeted amounts and actual amounts, of the approved amount only R 180 799 770 was disclosed, i.e due to the fact that the remaining R 416 192 153 is comprised of the non-cash items.

- The unauthorised expenditure of 2016 amounting to R2,432,461.82 for the year ended 30 June 2016 as disclosed on the financial statements as a result of year end provisions on Long term service awards and Employee benefit obligations from the actuarial valuation report prepared annually for the municipality by Actuaries.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 53. Events after the reporting date (continued)

#### Non adjusting events

At the Extra Ordinary Council Meeting of the 15th of August 2017, the council of Govan Mbeki Municipality resolved through resolution number CA12/08/2017 to appoint Mr BM Mhlanya as the Acting Municipal Manager

On 16 October 2016, the municipality experienced riots and protests from the Community of Embalenhle which resulted in burning and destruction of municipal properties and assets. The municipality lodged a claim with the insurers, the insurers are still busy processing the claims and final outcome in respect of reimbursement for the loss has not yet been received from the insurers.

#### Buildings

Four (4) municipal properties were affected namely, EMBA Main Municipal Offices, EMBA Workshop and Technical, EMBA Ext 17 pay point and EMBA Ext 9 pay point. EMBA Main Municipal Offices have been severely damaged and might have to be re-build. The other three properties can be repaired.

#### Fleet

Forty Two (42) transport assets were affected, of which thirty nine (39) were burned beyond repair and three (3) were just damaged and vandalise

#### Movables

Photocopiers, computers, telephones, furniture and other equipment were burned beyond repair

#### Cost of damages

According to the Municipal fixed assets register the cost of the damaged municipal properties and assets amounts to R25 402 026 while the respective book value amounts to R6 937 198.

The break down is reflected in the table below:

#### Description

Buildings  
Motor vehicles  
Computer equipment  
Furniture  
Other machinery

Number of Assets	Acquisition value	Book value
4	6 780 104	2 347 643
42	16 953 287	4 399 122
73	259 717	41 189
331	306 805	31 102
237	1 102 112	118 142
<b>687</b>	<b>25 402 025</b>	<b>6 937 198</b>

### 54. Unauthorised expenditure

#### Opening balance

Unauthorised expenditure incurred

2 432 461	
308 741 545	2 432 461
<b>311 174 006</b>	<b>2 432 461</b>

The unauthorized expenditure for 2016/17 amounting to R 183 232 232 was approved by Council through resolution A78/08/2017. The remainder of R 125 509 313 was identified during October and November period and still to be submitted to council.

The above unauthorised expenditure was incurred as a result of year-end accounting transactions not budgeted for, mainly the donation of land to schools, write-off of debtors and disposal of the sub-economic assets and bulk purchases.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

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### 55. Fruitless and wasteful expenditure

Opening balance	30 553 483	1 404 954
Incurred in the current year	32 806 460	29 148 529
	<b>63 359 943</b>	<b>30 553 483</b>

#### Details of fruitless and wasteful expenditure

Interest charged by Eskom	31 172 196	28 712 206
Interest charged by Rand water	1 129 140	-
Interest charged by Telkom	7 103	27 349
Interest charged by sundry creditors	84 784	408 974
Payments made for claims on contingencies	413 237	-
	<b>32 806 460</b>	<b>29 148 529</b>

Fruitless and wasteful expenditure from previous year amounting to R 30 553 483 was approved for write off by council in August 2016 as per resolution A72/08/2016. Fruitless and wasteful expenditure amounting to R 32 393 223 was approved on the 29 August 2017 as per resolution A78/08/2017

No disciplinary process have been taken by the municipality due to the fact that the expenditure was incurred as a result of cash flow constraints.

### 56. Irregular expenditure

Opening balance	171 244 986	79 005 262
Add: Irregular Expenditure - current year	101 029 082	92 239 724
	<b>272 274 068</b>	<b>171 244 986</b>

#### Details of irregular expenditure – current year

Services received without contracts	28 142 148	92 239 724
Month-to-month contracts	12 255 360	-
Non-compliance with SCM regulations	60 631 574	-
	<b>101 029 082</b>	<b>92 239 724</b>

Irregular expenditure amounting to R 111 067 610 written off by council on the 29 August 2016 through resolution A72/08/2016 and besides on the 29 August 2017 council approved irregular expenditure of R 142 191 756 (R 60 177 375 and R 82 014 379 incurred in 2016 and 2017 respectively) as per resolution A78/08/2017.

The municipality is investigating possible instances of irregular expenditure which has not been included in the amount disclosed above. The full extent of irregularity would only be known at the inclusion of these investigations.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 57. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses incurred

Electricity losses in kilowatts  
Water losses in kilolitres

281 624 734	253 051 127
9 997 257	8 161 856
<b>291 621 991</b>	<b>261 212 983</b>

#### Audit fees

Amount paid - current year

4 259 187	4 662 721
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#### South African Revenue Services

PAYE

56 361 503	49 476 274
------------	------------

SDL

3 624 947	3 375 061
-----------	-----------

UIF

4 799 626	4 767 578
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VAT paid/(refund)

(6 781 811)	(8 108 879)
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<b>57 994 265</b>	<b>49 510 034</b>
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#### VAT

VAT payable

24 642 883	63 687 759
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All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Badenhorst HJ	112	733	845
De Vries GR	1 127	2 557	3 684
Fourie BJ & ME	17 180	3 210	20 390
Gwiji CV	385	494	879
Klaas B	120	364	484
Mabizela TM	2 873	9 059	11 932
Maboa NF	570	1 029	1 599
Mahlangu BD	1 067	14 921	15 988
Makhaye SA	1 927	3 909	5 836
Mazibuko KD	116	635	751
Mofokeng TS	16 504	727	17 231
Mukhwanaazi AO	943	1 881	2 824
Nhlapo MD	57	697	754
Nkabinde JB	1 986	15 296	17 282
Ntuli SR	976	1 617	2 593
Sebolela JD	172	845	1 017
Vilakazi EA	908	574	1 482
	<b>47 023</b>	<b>58 548</b>	<b>105 571</b>

30 June 2016

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
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## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 57. Additional disclosure in terms of Municipal Finance Management Act (continued)

Van Huyssteen NC	2 268	745	3 013
Mnguni JM	1 012	4 059	5 071
Buthelezi TM	960	4 256	5 216
Ntuli FB	2 103	1 189	3 292
Mkwanaazi DS	2 693	13 574	16 267
	<b>9 036</b>	<b>23 823</b>	<b>32 859</b>

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Accounting officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting officer.

#### Incident

Emergency

Impractical to follow processes

Sole provider of goods and services

53 548	13 154
1 543 702	3 234 092
777 800	-
<b>2 375 050</b>	<b>3 247 246</b>

#### 58. Budget differences

##### Material differences between budget and actual amounts



# Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 58. Budget differences (continued)

The changes in the original budget, final budget and actual figures are as a result of movements and transfers done to cater for year end accrual journals, impairment journals, land fill site finance cost and year end assets journals. All budget fluctuations above 10% in comparison to actual results for the year were considered material and are explained below

#### **Service charges**

Less income realised than anticipated, which is also associated with distribution losses realised on electricity and water.

#### **Rental of facilities & equipment**

Renewal of lease contracts by tenants and less bookings received for rental of halls and municipality facilities

#### **Interest earned on outstanding debtors**

Increase in interest is related to increase in the debtors.

#### **Income from agency services**

Less income realised than anticipated due to decrease vehicle registrations and closure of licensing office due to ENATIS system technical interruptions.

#### **Administration and management fees**

Administration fees mainly relates to cut-off and reconnection fees. Less income realised than anticipated due to lesser cut-offs.

#### **Fees earned**

less income realised than anticipated.

#### **Incidental income**

More income realised than anticipated. Monies recovered from the department of Safety and Liaison which was not budgeted for.

#### **Other Income**

The actual income include surplus from Landfill site provision and retention write-off not budgeted for.

#### **Interest earned on external investments**

Lesser interest received due to lesser cash balances

#### **Dividends**

Less income realised than anticipated.

#### **Fines**

Less fines charged to transgressors

#### **Insurance claims received**

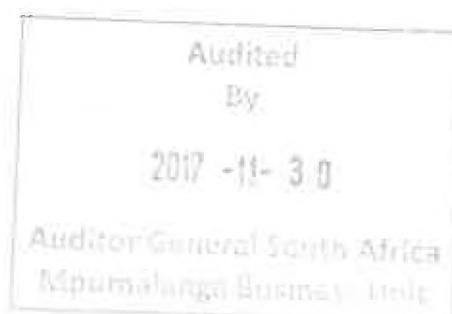
Less insurance incidents claims reported in the current year

#### **Property rates**

Less property rates income realised than anticipated.

#### **Bulk purchases**

Increase in demand, annual increase of the Eskom tariffs and the distribution losses.



## Govan Mbeki Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 58. Budget differences (continued)

#### Collection cost

Less use of service providers for collection hence reduction in the cost compared to actual budget.

#### Contracted services

Increase in legal fees than anticipated as a result of increase in number of legal cases.

#### Debt impairment

More debtors were long outstanding and payment were not made which increased the impairment.

#### Finance charges

Finance charges incurred mainly as a result of the Eskom interest which was not budgeted for.

#### Other expenditure

Donation of R57,147,850 where the municipality was giving the land to schools.

#### Repairs & Maintenance

Cash flow constraints, resulting in low spending

#### Transfers and grants

Increase in indigent database compared to what was budgeted for.

#### Loss on disposal of assets

Losses realised on disposal of SUB-Economic assets not budgeted for.

#### Actuarial losses

Actuarial losses incurred as a result of provision on employee benefit and long service award liability.

#### Fair value adjustments

Fair value adjustment as a result of investment property values aligned to the valuation roll.

#### Short term receivables

Long term debtors moved from long term to consumer debtors

#### Investment property

Investment property decreased as a result of unbudgeted donations made during the year

#### Long term receivables

Long term debtor has been moved from long term to current debtor

#### Other financial liabilities

Loan redeemed in the current year

#### Payables from exchange transactions

Increase as a result of major increase in normal creditors which are not paid as result of cash-flow constraints.

#### Payables from non-exchange transactions

The balance mainly include unknown deposits, more receipts were allocated than anticipated

#### Long service award liability

Increase in provision of long service liability than anticipated

